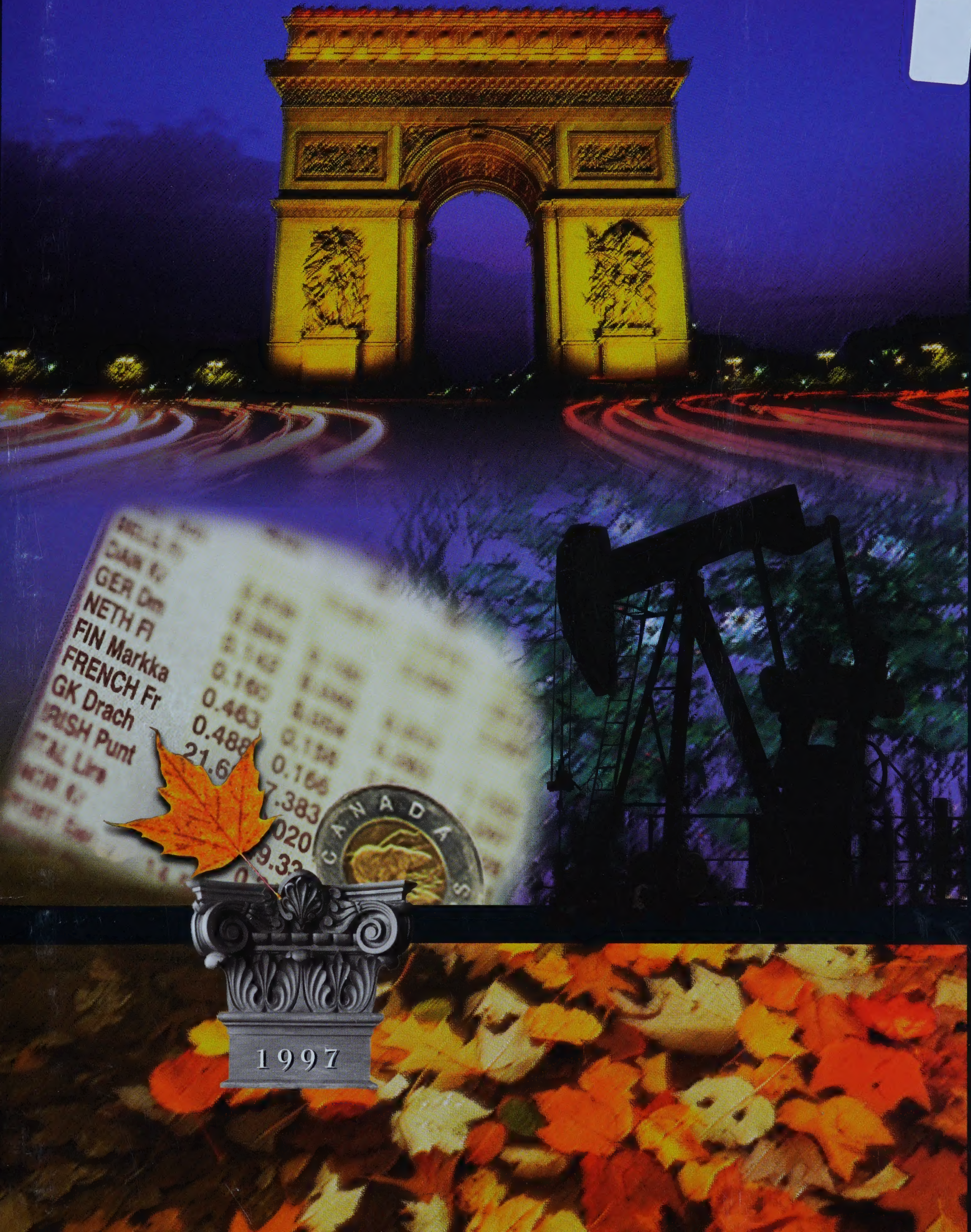
VERMILION
RESOURCES LTD.



1997

ANNUAL REPORT

About the Cover:

Depicted on the front cover of this year's annual report are icons representing the key elements of the Vermilion group of companies. The Canadian maple leaf and currency coupled with the cornerstone at the base of the collage suggest the Company's strong foundation in Western Canada as well as its value added growth strategy. The currency exchange table portrays Vermilion's expansion into the European community. Finally, the crowning symbol of the Arc de Triomphe stands for the doorway to opportunities in France at which Vermilion is now poised, while the motion of the traffic at its base represents the Company's fast pace of activity and growth.

La Couverture:

Sur la couverture du rapport annuel de cette année, on découvre en images les éléments-clés du Groupe Vermilion. La feuille d'érable et la pièce de monnaie canadienne, associées à la pierre angulaire à la base du montage, rélèvent le fondement solide de l'entreprise dans l'ouest canadien tout comme sa stratégie de croissance. La table des cours monétaires dépeint l'expansion de Vermilion dans la communauté européenne. Enfin, l'Arc de Triomphe, symbole de couronnement, représente l'ouverture aux opportunités internationales auxquelles Vermilion est maintenant préparé, alors que le mouvement de circulation, à sa base, évoque à la fois l'évolution rapide de l'activité et de la croissance de la compagnie.

Table of Contents

Vermilion's Annual General Meeting will be held in the McMurray Room at the Calgary Petroleum Club, 319-5th Avenue S.W., Calgary, Alberta, on Monday, June 15, 1998 at 3:00 p.m. local time. All shareholders are invited to attend, but those unable to do so are requested to sign and return the form of proxy mailed with this report to assure representation at the meeting.

Highlights

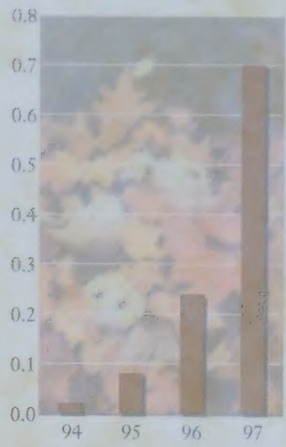
Corporate Profile

Vermilion Resources Ltd. is a Western Canadian based, international, oil and gas exploration and production company. Vermilion's common shares trade on the Toronto Stock Exchange, under the symbol "VRM" and are included in the TSE 300 Composite Index.

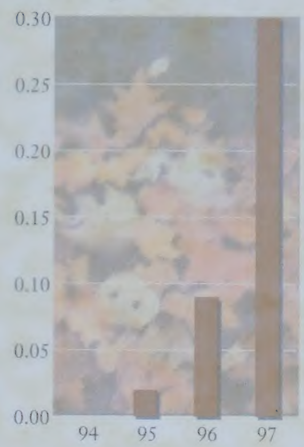
Vermilion's activities focus on operated, long life reserve assets oriented to liquids rich natural gas properties in West Central Alberta and light crude oil properties in the Paris and Aquitaine Basins of France.

The Company has adopted a value added growth strategy that includes a balance of acquisitions, development and exploration. Over the company's brief four year history, this strategy has created a unique identity for Vermilion as a highly profitable low cost finder of oil and gas reserves.

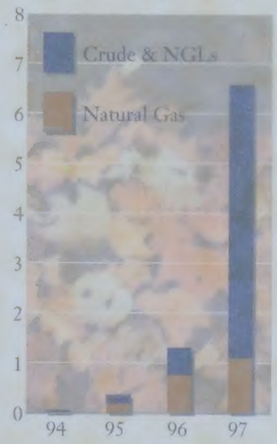
***Cash Flow** (\$/Share)*



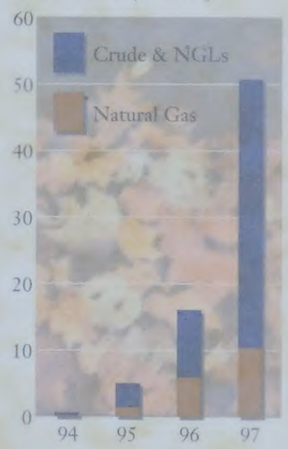
***Earnings** (\$/Share)*



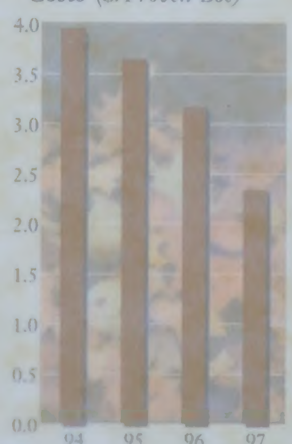
***Production** (Mboe/d)*



***Reserves** (Mmboe)*



***Acquisition and Finding Costs** (\$/Proven Boe)*



***Market Capitalization** (\$ Millions)*

ABOUT THE COVER:

DEPICTED ON THE FRONT COVER OF THIS YEAR'S ANNUAL REPORT ARE ICONS REPRESENTING THE KEY ELEMENTS OF THE VERMILION GROUP OF COMPANIES. THE CANADIAN MAPLE LEAF AND CURRENCY COUPLED WITH THE CORNERSTONE AT THE BASE OF THE COLLAGE SUGGEST THE COMPANY'S STRONG FOUNDATION IN WESTERN CANADA AS WELL AS ITS VALUE ADDED GROWTH STRATEGY. THE CURRENCY EXCHANGE TABLE PORTRAYS VERMILION'S EXPANSION INTO THE EUROPEAN COMMUNITY. FINALLY, THE CROWNING SYMBOL OF THE ARC DE TRIOMPHE STANDS FOR THE DOORWAY TO OPPORTUNITIES IN FRANCE AT WHICH VERMILION IS NOW POISED, WHILE THE MOTION OF THE TRAFFIC AT ITS BASE REPRESENTS THE COMPANY'S FAST PACE OF ACTIVITY AND GROWTH.

LA COUVERTURE:

SUR LA COUVERTURE DU RAPPORT ANNUEL DE CETTE ANNÉE, ON DÉCOUVRE EN IMAGES LES ÉLÉMENTS CLÉS DU GROUPE VERMILION. LA FEUILLE D'ÉRABLE ET LA PIÈCE DE MONNAIE CANADIENNE, ASSOCIÉE À LA PIERRE ANGULAIRE À LA BASE DU MONTAGE, RÉLÈVENT LE FONDEMENT SOLIDE DE L'ENTREPRISE DANS L'OUEST CANADIEN TOUT COMME SA STRATÉGIE DE CROISSANCE. LA TABLE DES COURS MONÉTAIRES DÉPEINT L'EXPANSION DE VERMILION DANS LA COMMUNAUTÉ EUROPÉENNE. ENFIN, L'ARC DE TRIOMPHE, SYMBOLE DE COURONNEMENT, REPRÉSENTE L'OUVERTURE AUX OPPORTUNITÉS INTERNATIONALES AUXQUELLES VERMILION EST MAINTENANT PRÉPARÉE, ALORS QUE LE MOUVEMENT DE CIRCULATION, À SA BASE, ÉVOQUE À LA FOIS L'ÉVOLUTION RAPIDE DE L'ACTIVITÉ ET DE LA CROISSANCE DE LA COMPAGNIE.

TABLE OF CONTENTS

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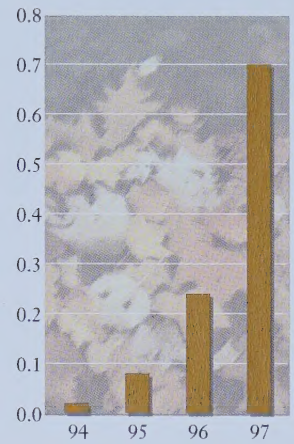
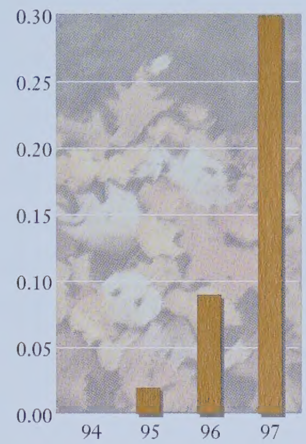
HIGHLIGHTS

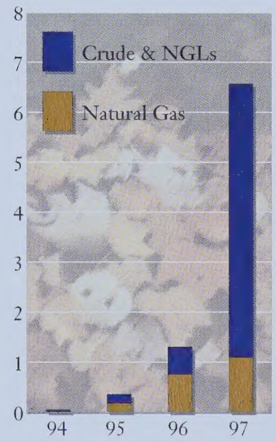
Cash Flow *($/Share)*



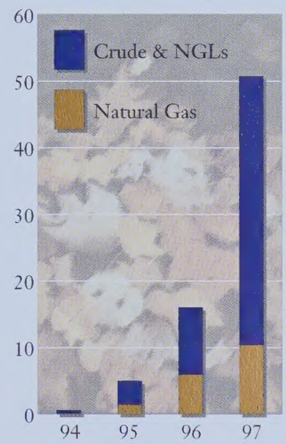
Earnings *($/Share)*



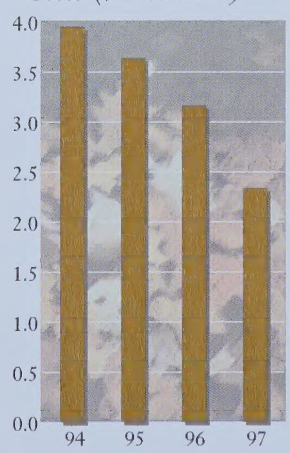
Production *(Mboe/d)*



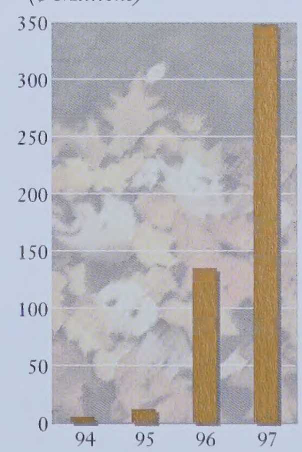
Reserves *(Mmboe)*



Acquisition and Finding Costs *($/Proven Boe)*



Market Capitalization *($ Millions)*



HIGHLIGHTS

	1997	1996	1995
FINANCIAL *($000 except per share amounts)*			
Petroleum and Natural Gas Revenues	**$ 53,693**	$ 9,323	$ 2,077
Cash Flow from Operations	**26,407**	5,169	1,085
Per Share	**0.70**	0.24	0.08
Net Earnings	**11,358**	1,866	243
Per Share	**0.30**	0.09	0.02
Capital Expenditures	**78,634**	27,428	9,022
Total Assets	**130,231**	44,246	19,609
Long-Term Debt	**17,549**	13,404	4,269
Shareholders' Equity	**$ 77,722**	$ 21,256	$ 5,366
Common Shares Outstanding			
End of Period	**42,154,338**	29,909,864	16,367,071
Weighted Average	**37,773,872**	21,403,004	14,473,854
Fully Diluted, End of Period	**45,580,231**	32,982,935	19,116,482
Share Trading			
High	**$ 9.75**	$ 4.50	$ 0.85
Low	**3.85**	0.70	0.45
Close	**$ 8.25**	$ 4.50	$ 0.75
OPERATIONS			
Production			
Crude Oil (Bbls/d)	**4,825**	229	77
NGLs (Bbls/d)	**651**	318	98
Natural Gas (Mcf/d)	**10,973**	7,600	1,835
Total Production (Boe/d)	**6,573**	1,307	359
Average Selling Price			
Crude Oil (per Bbl)	**$ 22.33**	$ 26.93	$ 19.49
NGLs (per Bbl)	**19.93**	21.50	15.78
Natural Gas (per Mcf)	**2.41**	1.63	1.43
Operations Netback (per Boe)	**12.94**	13.33	10.29
Cash Flow Netback (per Boe)	**$ 11.00**	$ 10.78	$ 8.28
Reserves (Proven Plus 50% Probable)			
Crude Oil (Mbbls)	**34,876**	1,330	673
NGLs (Mbbls)	**5,451**	2,758	1,376
Natural Gas (Mmcf)	**104,486**	60,004	15,053
Undeveloped Land Holdings (net acres)	**256,053**	45,450	18,881
Net Asset Value per Share	**$ 6.67**	$ 2.00	$ 0.89
Finding Costs (per proven Boe)	**$ 2.34**	$ 3.16	$ 3.64
Recycle Ratio	**4.7**	3.4	2.3

"The recent listing of Vermilion's common shares on the TSE 300 Composite Index will enhance market awareness and improve shareholder liquidity."

PRESIDENT'S MESSAGE

Fellow Shareholders

It is with great pleasure that I report to you on Vermilion's outstanding performance for 1997. The Company's focused approach and disciplined corporate strategy has enabled it to achieve four consecutive years of growth in all areas of its business.

Over the past year, your Company evolved from a domestic gas producer to a mid-size international oil and gas company with operations in the Paris and Aquitaine Basins of France and the West Central region of Alberta. The successful acquisition, integration and development of the French assets during the year along with the development of the Chip Lake gas assets provided significant growth in 1997. These assets have established a platform for the Company that will provide many years of prospective growth.

Listed below are the corporate highlights for 1997:

- 1997 Cash Flow and Earnings per share increased 2.9 and 3.3 times, respectively, over those for 1996. The Company continued to deliver a high level of profitability by increasing its earnings to cash flow ratio to 43% in 1997 from 36% in 1996, representing one of the highest in the industry,

- Average production increased 403% from 1,307 to 6,573 barrels of oil equivalent per day (Boe/d) in 1997. Corporate Reserves for the year increased fivefold to 50.8 Mmboe from 10.1 Mmboe in 1996. As a result of these reserve additions, Vermilion's net asset value at year-end increased to $6.67 per share, up from $2.00 per share a year earlier.

- Capital spending for the year increased 187% to $78.6 million. For the fourth consecutive year the Company reduced its Acquisition and Finding Costs which, in 1997, dropped to $2.34 per proven Boe. This low finding cost combined with its cash flow netback of $11.00 per Boe resulted in a Recycling Ratio of 4.7 for 1997 compared to 3.4 a year ago.

- Vermilion's share price reflected these financial and operating results by increasing 83% from $4.50 at the start of the year to $8.25 at year-end. With a total of 42.2 million shares outstanding, the Company's market capitalization increased to $348 million, up from $135 million a year earlier.

OUTLOOK

The outlook for Vermilion and its shareholders is very promising as all necessary ingredients needed to provide long term sustained growth are now in place.

As a result of its recently closed $40 million equity financing, Vermilion is virtually debt free, leaving the Company with considerable financial flexibility. The Company has also secured a new $60 million credit facility with two major international banks.

"In 1997, Vermilion's net asset value more than tripled to $6.67 per share."

This facility, along with the continued cash flow growth from the existing asset base, provides the Company with solid funding for its ongoing drilling and acquisition plans in both Canada and France, despite the short term backdrop of reduced crude oil prices. In light of this improved financial flexibility, the Capital Budget for 1998 has been increased to $140.6 million.

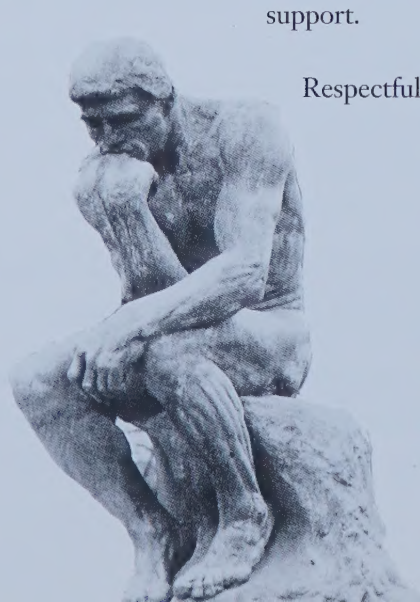
Vermilion's asset base currently produces 9,500 Boe/d and is forecasted to produce an average 12,000 Boe/d in 1998. With Vermilion's large prospect inventory and 14 year reserve life, the Company has created an excellent platform for future growth. In early April 1998, Vermilion closed two single sourced gas acquisitions at Chip Lake, Alberta, that now provide the Company with operatorship and control over twelve townships of land including pipelines and gas processing facilities. In France, the successful exploitation program and 3-D seismic work performed in 1997 have led to the identification of over 12 drilling prospects at Parentis, Lugos, Mothes, Vulaines, Malnoue and Champotran. On the exploration front, Vermilion has identified several high impact exploration projects in France. The first of these projects is a crude oil prospect, Vexin, located in the Paris Basin. This prospect, with estimated oil in place of 256 Mmbbls, will be drilled in the summer of 1998.

Quality people are the cornerstone of any successful company. In 1997, Vermilion strengthened the operating experience of its management team while broadening the technical expertise of its employees in both Canada and France. The incredible effort by all employees in 1997 enabled Vermilion to substantially grow its asset base while providing for the smooth and orderly integration of the French operations into the business. Vermilion will continue to expand its staff as needed in order to properly manage its ongoing growth and prudently spend its capital programs.

Acknowledgements

I would like to personally thank all of our employees and directors, in Canada and in France, for their tremendous efforts and contributions throughout 1997. I look forward to their continued commitment to making Vermilion a premier oil and gas company. In addition, I would like to thank all shareholders for their ongoing loyalty and financial support.

Respectfully submitted on behalf of the Board of Directors,



Jeff S. Boyce
President & C.E.O.

April 15, 1998

Summary of Operations

International

"The size and scope of this French transaction has transformed Vermilion from a small domestic gas producer into a mid-size international oil and gas exploration and production company."

FRANCE

On May 9, 1997, Vermilion REP S.A., a wholly owned French subsidiary of Vermilion Resources Ltd., closed the acquisition of oil and gas assets in the Paris and Aquitaine Basins of France for $46 million. The acquisition consisted of: nine operated 100% working interest fields; three minor interest properties; the right to farmin on three onshore exploration permits totaling 400,000 gross acres; and a 10% working interest in a 500,000 acre offshore exploration permit. The size and scope of this French transaction has transformed Vermilion from a small domestic gas producer into a mid-size international oil and gas exploration and production company.

The French property acquisition was targeted following an extensive review of international opportunities. The Company initiated the process by identifying target regions through a comparison of various factors including: political and business risk, fiscal regime, and geological potential. Opportunities were then identified within these regions and screened according to their compatibility with the Company's corporate strategy. Finally, these properties were measured against a number of criteria to obtain an optimal balance of production, low-risk exploitation and development activities, and exploration projects.

Vermilion dedicated its efforts during the remainder of 1997 to conducting a detailed assessment of the potential of the acquired assets while proceeding with an extensive workover and well recompletion program. Detailed engineering and geological studies, the shooting of 60 square kilometers of new 3-D seismic, and a re-processing of the existing 3-D seismic at Parentis, provided the necessary data that confirmed the very significant potential of the acquired assets. The $10.1 million workover and recompletion program, now substantially completed, entailed the recompletion and/or reactivation of 42 wells in France and resulted in a 50% increase in production, from 4,000 Boe/d to more than 6,000 Boe/d. During the last quarter of 1997, the Company drilled three wells that were put on stream in the first quarter of 1998, adding 800 Boe/d of production.

This past year was also dedicated to creating a new business in France and integrating its new activities into the Company's existing operations. During 1997, Vermilion established technical, financial and production systems for its new French subsidiary and integrated these with the existing systems in Canada. Staffing increased as a result of the acquisition and personnel with the needed technical, operational and financial skills and experience were hired in both Canada and France. By year-end, Vermilion REP S.A. was a fully functional and integrated subsidiary.

SUMMARY OF OPERATIONS

The initial evaluation and exploitation activities undertaken in 1997 have identified numerous infill and horizontal drilling opportunities in France. As a result, Vermilion has secured two drilling rigs for 1998, and plans to drill 17 wells over the year based on a development and exploration capital budget of $48.1 million. The Company has targeted a 1998 average production rate of 7,600 Boe/d for its assets in the Aquitaine and Paris Basins.

In 1998, Vermilion will initiate its exploration program in France. The extensive geological and geophysical studies undertaken during 1997 have led to four onshore exploration prospects with estimated oil in place reserves of up to 256 Mmbbls for the largest prospect. In addition, Vermilion sees tremendous potential in the offshore Aquitaine Maritime permit where five structures have been identified to date, on the basis of 2-D seismic and offsetting well information.

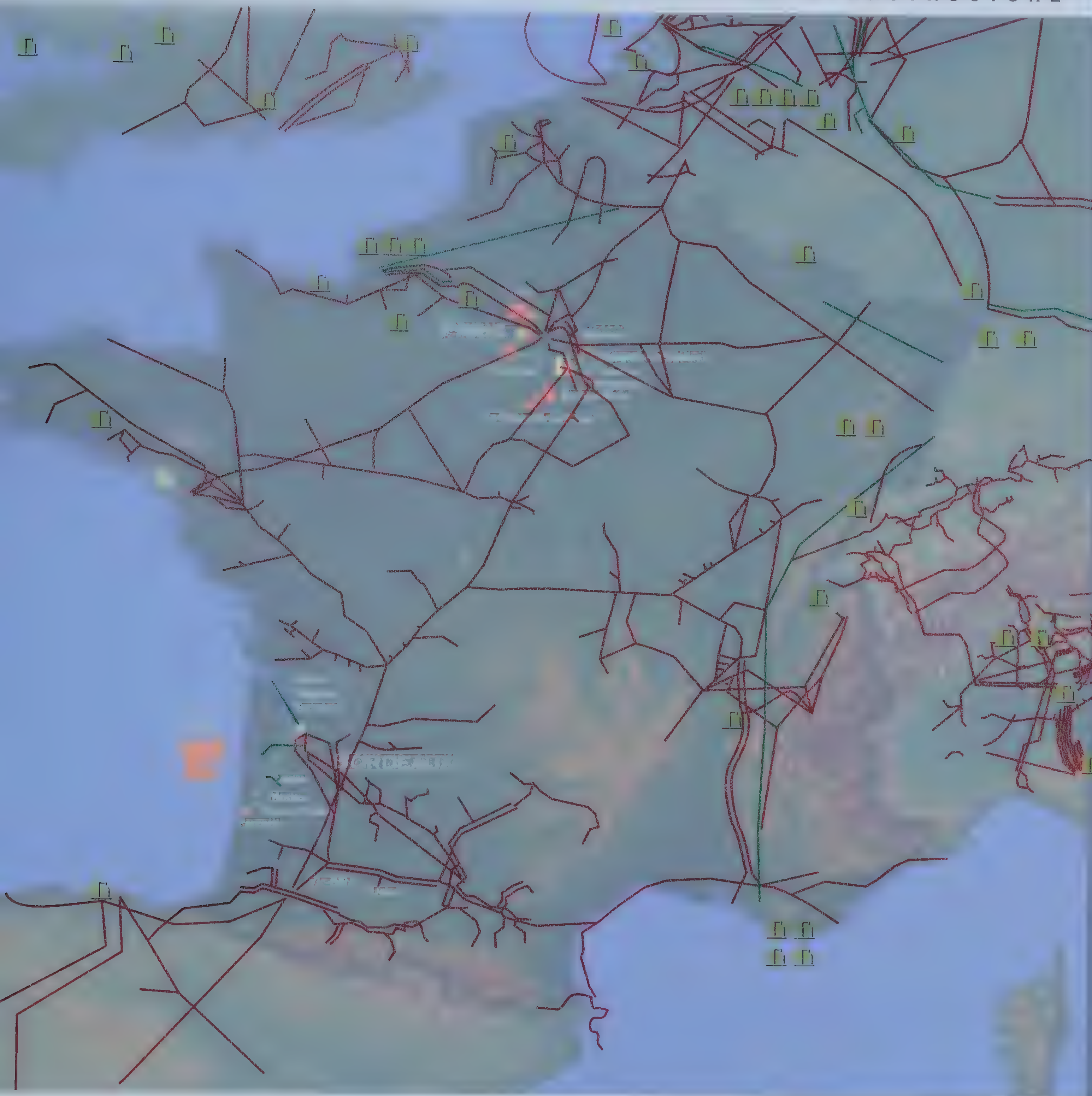
Vermilion continues to assess potential exploration projects and acquisitions of strategic assets in the region, with a focus on assets that have similar upside potential to the original acquisition. Vermilion believes that its presence in France positions it as a forerunner in the acquisition of other producing properties in the country.

SUMMARY: FRANCE

1998 Capital Expenditure Budget:		$48.1 Million
1997 Capital Expenditure:		$21.5 Million
Crude Quality (average gravity)		
Sweet Light Crude:		32.4° API
1997 Exit Production:		6,000 Boe/d
1997 Average Production:		4,876 Boe/d
Reserves		
(proven plus 50% probable):	Oil	33.8 Mmbbls
	Gas	16.0 Bcf
Undeveloped Land:	Gross	775,306 Acres
	Net	196,587 Acres *
Property Value @ PVBT 15%		
(proven plus 50% probable):		$225.5 Million

** Includes 178,904 gross acres or 89, 452 net acres of exploration option lands*

PIPELINES AND REFINERIES INFRASTRUCTURE



oil pipeline

producing permit

exploration permit

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[illegible]	[illegible] Million
[illegible]	[illegible] API
[illegible]	[illegible] Boe/d
[illegible]	[illegible] Boe/d
[illegible]	[illegible] Mmbbls
[illegible]	[illegible] Bcf
[illegible]	[illegible]5,306 Acres
[illegible]	[illegible] Acres*
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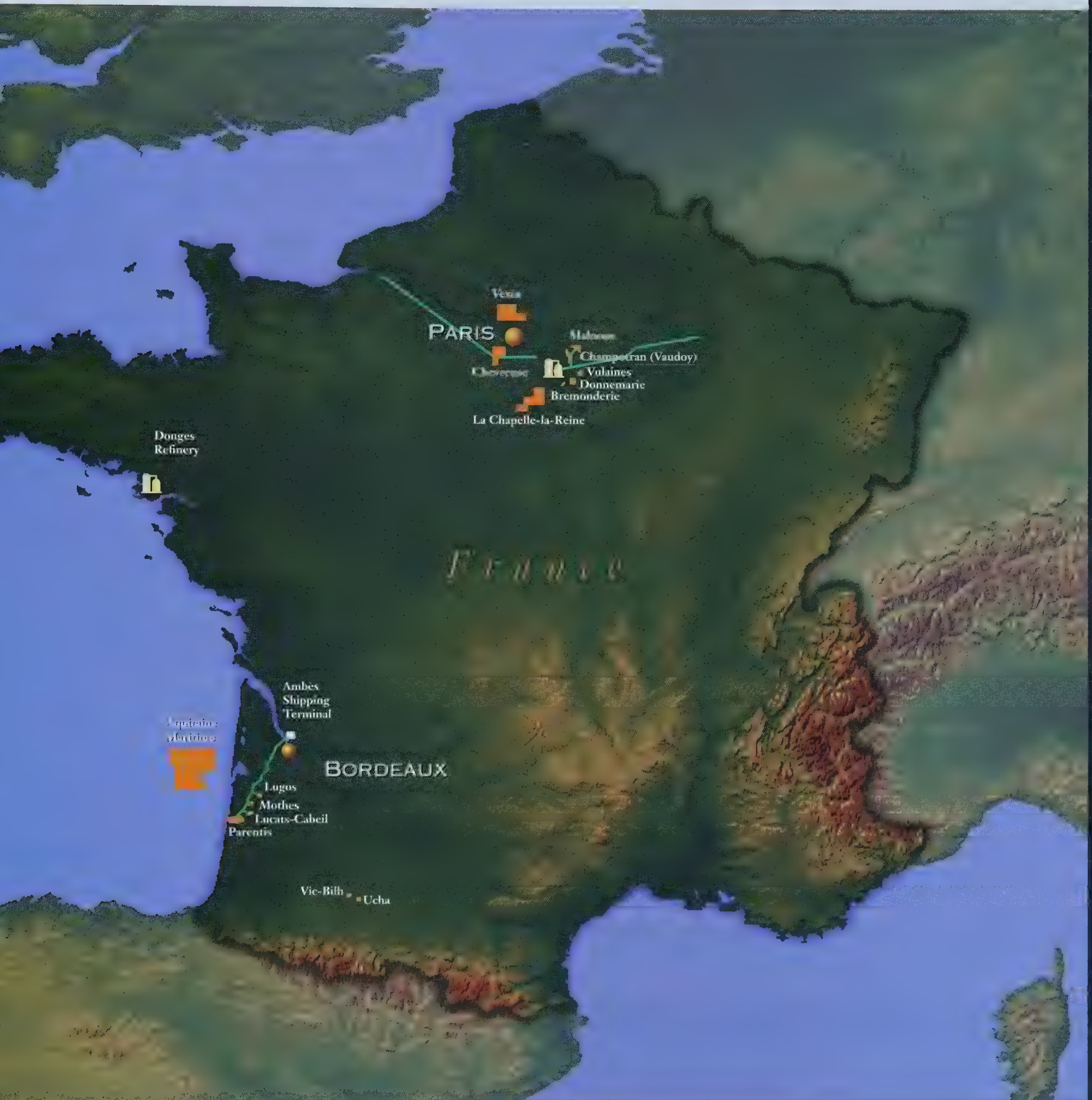
Vermilion's French Assets



Gas pipeline
Crude oil pipeline
Refinery
Vermilion producing permit
Vermilion exploration permit

AQUITAINE BASIN

The reactivation phase of Vermilion's workover program has been successfully completed. At Parentis and Lugos, 23 additional wells are now on stream adding over 1,000 Bbls/d. An additional six recompletions were implemented at the Parentis field prior to year-end, bringing total production in the Basin to over 4,480 Bbls/d. This program and the subsequent analysis of the results have led to plans for drilling one well at Lugos, three wells at Parentis and three wells at Mothes.

In the fall of 1997, 60 square kilometres of 3-D seismic programs were shot at Lugos, Lucats-Cabeil and Mothes, while a 3-D program previously shot at Parentis was reprocessed. The Parentis program was analyzed in late 1997 leading to an application to drill three horizontal onshore wells. The Lugos seismic was also analyzed early in 1998, leading to a one-well program with the potential for two to four follow up wells. Interpretation of the Mothes seismic has resulted in three proposed horizontal wells with two to four follow up locations. Lucats-Cabeil seismic is currently being studied.

Reserves in the Aquitaine Basin increased from 13.3 Mmboe to 25.8 Mmboe in 1997, on a proven plus 50% probable basis. Production also increased from 2,700 Boe/d at the time of acquisition to 4,480 Boe/d exit production in 1997. This increase was a direct result of the recompletion program. Upon completion of this first phase of drilling, Vermilion will proceed with plans for further drilling.

SUMMARY: AQUITAINE BASIN

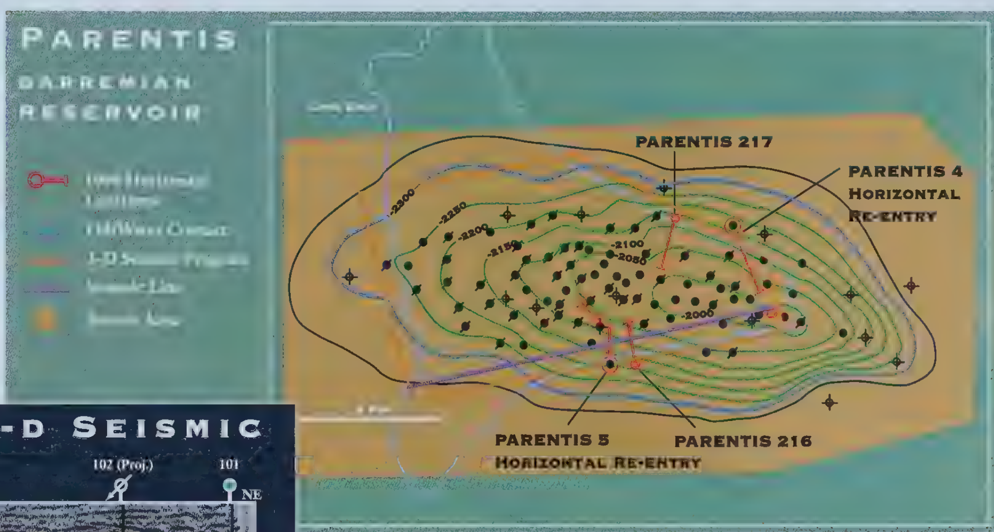
Producing Formation:		Cretaceous carbonates and sandstones
Average Working Interest:		100%
1997 Exit Production:		4,480 Boe/d
1997 Average Production:		3,888 Boe/d
Reserves (proven plus 50% probable):	Oil	24.2 Mmbbls
	Gas	16.0 Bcf
Undeveloped Land:	Gross	561,787 Acres
	Net	72,520 Acres
Property Value @ PVBT15% (proven plus 50% probable):		$154.4 Million

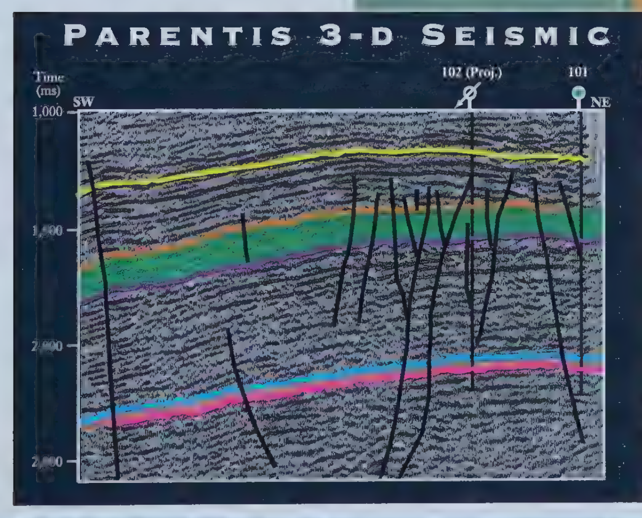
Parentis Field

Parentis is the largest oil field in France, having produced 212 Mmbbls to date with reserves in place estimated to be in excess of 600 Mmbbls. Vermilion initiated its workover program at Parentis with 31 well recompletions and reactivations, increasing production from 2,450 Bbls/d to 3,200 Bbls/d at year-end.

The initial workover, accomplished over a four-month period beginning in May 1997, targeted reactivation of shut-in wells and pump changes. From September through December 1997, Vermilion focused on recompleting into the upper zones and reperforating existing producing zones at double to quadruple the density of shots originally used.

Reservoir:	Cretaceous-aged Aptian sandstones; Barremian carbonates
Depth:	1,975–2,400 metres





In the fall of 1997, Vermilion reprocessed an existing 3-D program overlying the Parentis field that revealed significant faulting and indicated unswept areas of reserves. As a result of the analysis, Vermilion plans to drill a three well horizontal program at Parentis for the first half of 1998. These wells are targeting the upper zones, which have the most potential for unswept oil. The R1 zone, which is of particular interest,

PARENTIS FACILITIES

covers an area of 33 square kilometres and has potential reserves in place of 85 Mmbbls. These three wells will be drilled from existing leases and two will be re-entries from existing wellbores. The first well has been drilled and is awaiting completion while the second has been spudded. These wells are expected to produce 200 Bbls/d to 600 Bbls/d. Results from the initial round of drilling will lead to a 1999 drilling program of five to ten wells. Plans are being made to test the deeper Jurassic in late 1998 or early 1999.

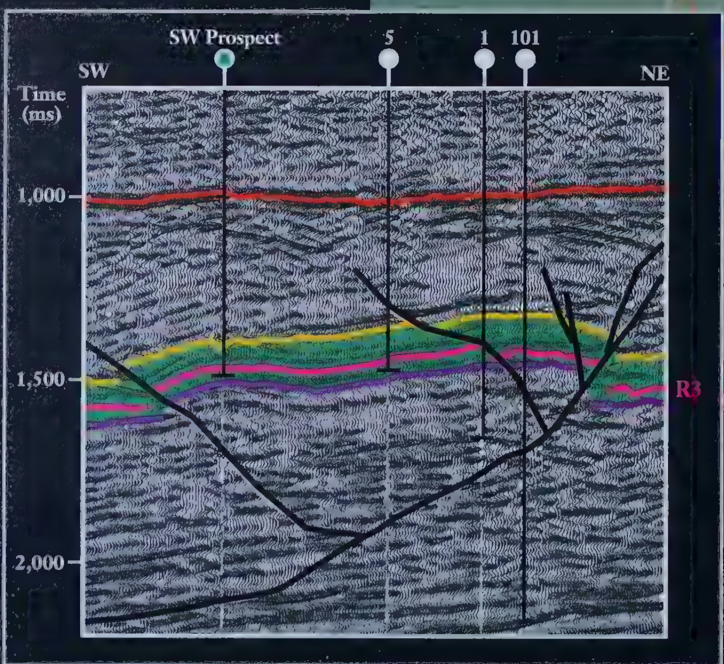
VRM

Reservoir:	Cretaceous-aged Barremian carbonates
Depth:	2,385–2,440 metres

Mothes Field

Mothes, a field with a very low well density, has produced a total of 8 Mmbbls to date. The field has a fractured reservoir with a high water cut. Vermilion's analysis of a 3-D seismic program shot in the fall suggests a new unswept area of the pool with significant potential. This area, which will be targeted by the first well of a three-well horizontal drilling program, has the potential of 1,000 Bbls/d initial well productivity. Depending upon the results of the first three wells, another two could be drilled in 1999.

MOTHES 3-D SEISMIC

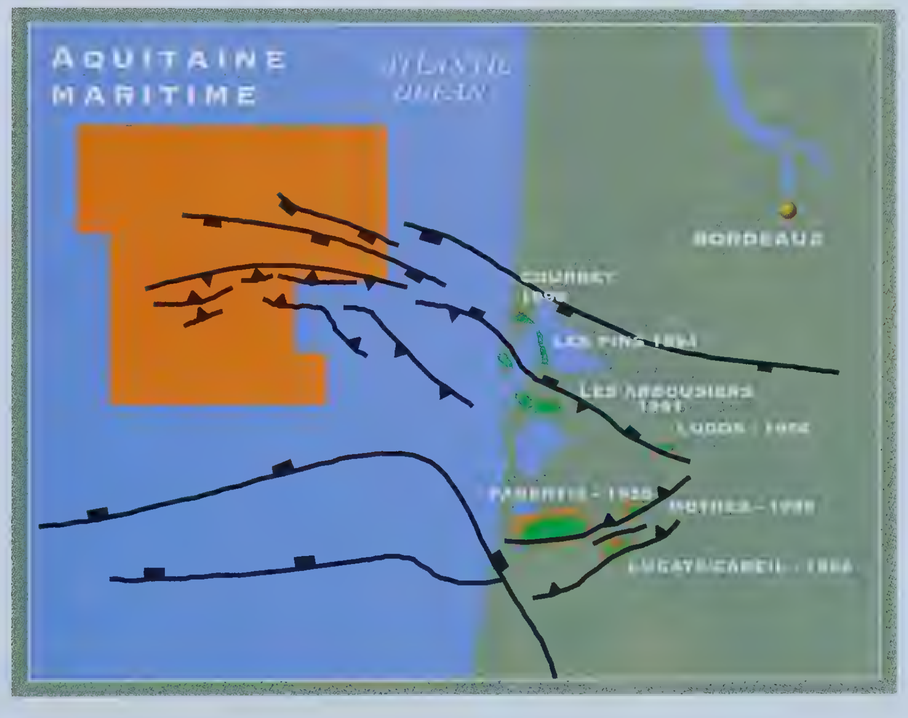


Lugos Field

Phase I of the workover program at Lugos, comprised of eight recompletions and reactivations, was completed in 1997 and more than doubled production from the field. Plans to spud the first of up to a three well program at Lugos were made in the first quarter of 1998, with the potential for two to five wells in 1999. A deeper Jurassic play was identified on seismic and will be tested with the first well. To date, this field has produced 12 Mmbbls.

Aquitaine Basin Exploration

In 1998, Vermilion intends to pursue exploration leads that have been identified in the Jurassic zone at Parentis and at Lugos. The Company currently estimates potential reserves in place of 100 Mmbbls for the Parentis Jurrassic prospect.



The offshore Aquitaine Maritime block has tremendous potential, as five structures have been identified on the basis of 2-D seismic. Vermilion intends to follow up with a 3-D seismic program over the 543,630 acre block in late 1998 or early 1999, and depending upon the results will identify a well location. The permit is west and on trend from a peninsula where a major operator is currently active. The potential from this area has been described as world class in size since this area was once connected to what is now the Hibernia area. Vermilion will also pursue other opportunities in this area in 1998.

PARIS BASIN

The workover program in this core area was initiated in October, with the recompletion of one well at each of Malnoue and Vulaines, resulting in a sustained production increase of over 500 Boe/d. This new production comes from the upper zones of the Jurassic Dogger formation.

This initial program was followed by development drilling of two infill wells at Champotran, and the Company's first horizontal well at Vulaines. All three wells were put on stream in the first quarter at a combined initial production rate of 800 Boe/d.

Reserves attributed to the Paris Basin have increased from 7,815 Mbbls at the time of acquisition to 9,643 Mbbls by year-end 1997, while production has increased by more than 45% from the 1997 average of 988 Boe/d to exit levels of 1,450 Boe/d.

The 1998 drilling program will include two high impact horizontal wells at each of Malnoue and Vulaines, further infill drilling at Champotran and a high profile exploration well at Vexin. Based upon success, up to five additional wells could be drilled at Vulaines, as well as four wells at Malnoue and seven wells at Champotran in 1998.

SUMMARY: PARIS BASIN

Producing Formation:		Jurassic-aged carbonates: Dogger (Calovian and Bathonian) Triassic-aged sandstones: Chaunoy
Average Working Interest:		100%
1997 Exit Production:		1,450 Boe/d
1997 Average Production:		988 Boe/d
Reserves (proven plus 50% probable):	Oil	9.6 Mmbbls
Undeveloped Land*:	Gross	213,519 Acres
	Net	124,067 Acres
Property Value @ PVBT 15% (Proven & 50% Probable):		$71.1 Million

** Includes 178,904 gross acres and 89,452 net acres of exploration options lands*

"Vermilion plans to spud two high impact horizontal wells at Malnoue in the second quarter, one from the existing pad and the other on a new surface lease."

Malnoue Field

The Malnoue field has produced a cumulative 1.2 Mmbbls to date. In the fall of 1997, Vermilion successfully recompleted Malnoue 4 into the Dogger formation. This well initially produced clean oil at a rate exceeding 500 Bbls/d and was followed by recompletions of Malnoue 5 and 6 during the first quarter of 1998. Results from these two wells indicated significant unswept oil downdip of existing producers. The Company also determined that the fractured carbonate reservoir, currently producing at high water cuts, is analogous to some southeastern Saskatchewan reservoirs that have achieved significant productivity improvements through horizontal drilling. Based on these findings, Vermilion plans to spud two high impact horizontal wells at Malnoue in the second quarter, one from the existing pad and the other on a new surface lease. Production from these wells is expected to be in the range of 200 to 600 Bbls/d. Up to four additional wells are planned for 1999, contingent upon results from these initial horizontal wells.

Production is treated at the water separation facilities on site at Malnoue and the crude oil is then pipelined to the Company's production facility at Vaudoy. Both facilities will be expanded in 1998 to handle increased fluid production from existing and new wells.

Reservoir:	Jurassic-aged carbonates
Depth:	2,000 metres

Vulaines Field

The reservoir at Vulaines is similar to the one underlying the Malnoue property in that it is fractured, has variable porosity, has high water cuts and is similar to reservoirs in southeastern Saskatchewan that have proven to be highly responsive to horizontal drilling. There is also significant infill potential due to the fractured heterogeneous nature of the reservoir. As of year-end 1997, a cumulative 700 Mbbls of reserves have been recovered from the Vulaines field.

Following the successful recompletion of Vulaines 5 in the Dogger formation in the fall of 1997, the first Vulaines horizontal well, Vulaines 8, was drilled starting in late December with completion in January. This first horizontal well initially produced oil

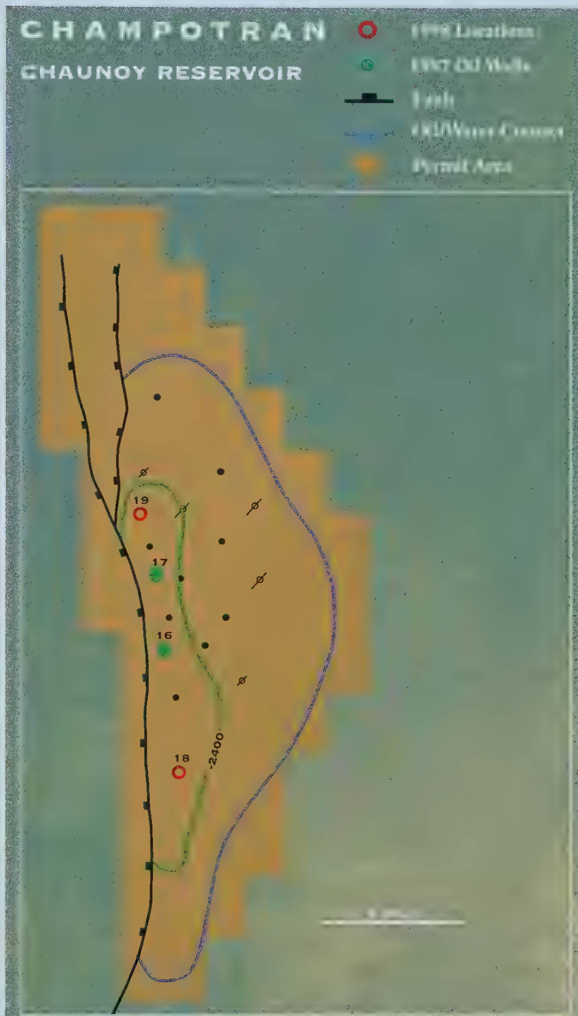
at a rate of 500 Bbls/d. A second horizontal well has now been drilled and a third well is planned for the second quarter of 1998. The Company plans to drill a further two to four wells at Vulaines in 1998, and depending upon success, potentially five to eight wells will be drilled in 1999. These wells are expected to produce in the order of 200 to 600 Bbls/d. The subsequent 1998 wells will be drilled from locations to the east and to the north where local structural highs have been identified by seismic. An additional seismic program is currently under consideration to extend the northern area.

Reservoir:	Jurassic-aged carbonates
Depth:	1,850 metres

Production at Vulaines is characterized by a high water cut. All fluids are treated on site including water disposal and the oil is trucked to the Elf Refinery at Grandpuits. The facilities are currently being expanded to treat the increased production and the disposal well has been deepened, resulting in excess disposal capacity. Vermilion is now in a position to implement the next phase of the program by adding significant reserves and production through horizontal wells and high volume lift. The facilities will eventually be tied-in to a third party pipeline system and an engineering firm has been commissioned to prepare the application for construction of a pipeline, which could begin in late 1998.

Champotran Field

During the fourth quarter of 1997, the first two wells of an initial four-well program were drilled at Champotran. These wells came in as expected with 6.3 metres and 11.5 metres of net pay. The wells are producing oil at a combined rate of 300 Bbls/d and have increased the field production by 50%. A third well, Champotran 19, will be drilled early in the second quarter of 1998. This well and the fourth proposed well in the Champotran field are identified on the corresponding map. Champotran 18, to the south, will set up an extension of the Triassic pool and could result in two to five follow up locations. This field has produced a cumulative 2.4 Mmbbls as of year-end 1997.



Champotran production is currently being trucked to the Elf refinery at Grandpuits. In the second quarter of 1998, Vermilion will reactivate an existing oil pipeline to this refinery. The minimal capital expenditure will be more than offset by the reduction in trucking costs of $1.30 per barrel. The reactivated pipeline has sufficient capacity to accept all the production from Malnoue and Champotran being treated at the Company's production facility at Vaudoy (see Paris Basin locator map).

Reservoir:	Triassic-aged sandstones
Depth:	2,520 metres

"Vermilion has an option on two onshore exploration permits in the Paris Basin, each with promising reserve potential. Success in the larger field alone could double the Company's reserves."

Paris Basin Exploration

Vermilion has an option on two onshore exploration permits in the Paris Basin, each with promising reserve potential. Success in the larger field alone could double the Company's reserves.

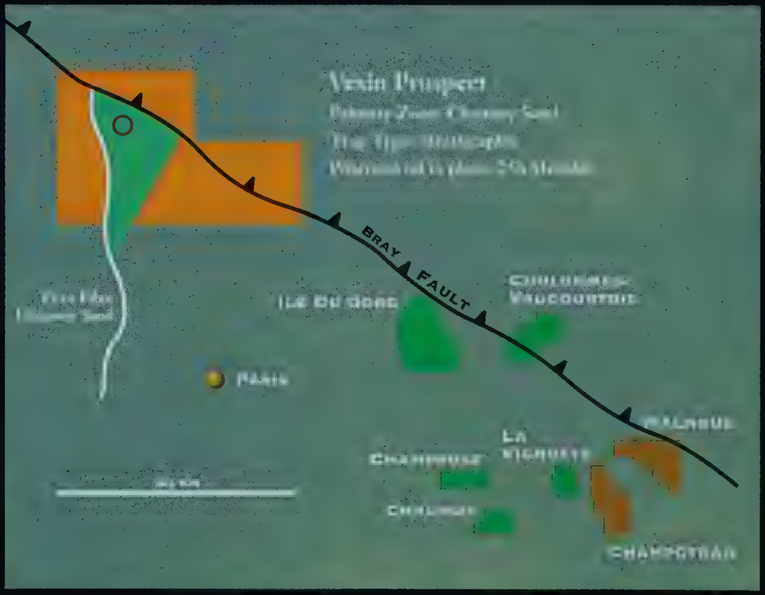
The larger of the two prospects, Vexin, is on trend with seven producing fields, including the Chaunoy field. This field went on production in 1983, has produced 66 Mmbbls to year-end 1997, and remains one of the largest fields in France. Vermilion estimates potential oil in place of 256 Mmbbls for Vexin. This prospect is situated on a 129,730 gross acre permit north of Paris. Vermilion has selected a location and will spud a well on this prospect in 1998.

The Company's second exploration prospect in the Paris Basin is located on the Chevreuse permit, which covers 49,174 gross acres to the south and west of Paris. The Chevreuse prospect is near several existing producing fields in the Jurassic formations. The Itteville field was discovered in 1990, put on stream in 1991, and has produced 78 Mmbbls to year-end 1997. Vermilion estimates potential oil in place of 55 Mmbbls for the Chevreuse prospect. The company is currently analyzing and reprocessing seismic to evaluate this play. A decision to drill on the lands will be made mid-year 1998.

For each of these prospects, Vermilion must drill one well to earn the entire permit and will operate the production upon success. Vermilion will be pursuing other exploration concessions and farmin opportunities in both producing basins and has employed a senior international exploration geologist to focus on this task.

Chevreuse Prospect

Vexin Prospect



Canada

"During 1997 and the first quarter of 1998, Vermilion strengthened its position in the liquids rich natural gas area of Chip Lake with its ongoing development activities and its recent acquisitions."

In Canada, Vermilion focused on drilling in its core area, Chip Lake, Alberta during 1997. While the Company also evaluated potential acquisitions in Canada, particularly in the Chip Lake area, an overheated market created excessive premiums for domestic properties. Management therefore postponed the acquisition of properties in Canada in anticipation of more favourable market conditions. Vermilion is now positioned, in 1998, to pursue strategic acquisitions in Canada without affecting its 20 well domestic drilling program.

Vermilion exited 1997 with a production rate of 2,100 Boe/d and an additional 300 Boe/d awaiting facilities construction in the early part of 1998. With the recent acquisition of approximately 900 Boe/d, Vermilion is well positioned to add reserves and production growth and expects its 1998 average production rate to be approximately 4,400 Boe/d from its Canadian operations.

Chip Lake

During 1997 and the first quarter of 1998, Vermilion strengthened its position in the liquids rich natural gas area of Chip Lake with its ongoing development activities and its recent acquisitions. The area provides Vermilion with long life reserves and strong exploration and development potential. Vermilion's acquisition efforts in the first quarter of 1998 have resulted in a large established infrastructure of gas processing facilities and pipelines with sufficient capacity to handle current development plans.

In the first quarter 1997, Vermilion completed the installation of a 1,000 Boe/d crude oil battery in the northeastern part of Chip Lake, offsetting a recently discovered oil pool. The pool is currently producing in excess of 350 Boe/d. One well drilled in the fourth quarter yielded 160 Boe/d and additional wells are being planned for both the first and second quarters of 1998. As a result of Vermilion's expansion in this area, the Company hired its own operator, and this will lead to a reduction in its overall operating costs.

In the second quarter of 1997, Vermilion concluded negotiations to farmin on approximately 25,000 acres of undeveloped land in this area. By year-end, Vermilion had drilled five wells on this acreage and in the first quarter of 1998, the Company had drilled an additional two wells. The remaining lands are held under option until August 31, 1998.

In the fourth quarter, Vermilion successfully completed negotiations with the plant operator of the Granada Gas Plant. Vermilion increased its ownership in this plant and associated gathering system, and now holds a majority interest of approximately 62% in the plant and 75% of the gathering system. Pending E.U.B. approval, operatorship of this gas plant will be transferred to Vermilion in the second quarter of 1998.

"In addition to its two oil batteries, Vermilion will now control and operate two major gas processing facilities with a combined processing capacity in excess of 60 Mmcf/d and a gathering system that captures gas from an area equivalent to 12 townships."

In the first quarter of 1998, Vermilion added to this core area through the purchase of assets with approximately 900 Boe/d of production and 3.1 Mmboe of reserves located on 45 gross sections of land. Furthermore, this acquisition included a 57% ownership interest and operatorship of the 31 Mmcf/d Eta Lake Gas Plant as well as an ownership interest in a 2,500 Bbls/d oil battery.

Overall, Vermilion's focused approach to this area has resulted in strategic growth for the Company. In addition to its two oil batteries, Vermilion will now control and operate two major gas processing facilities with a combined processing capacity in excess of 60 Mmcf/d and a gathering system that captures gas from an area equivalent to 12 townships. The Company will continue to enhance its competitive advantage over other operators in the area.

SUMMARY: CHIP LAKE

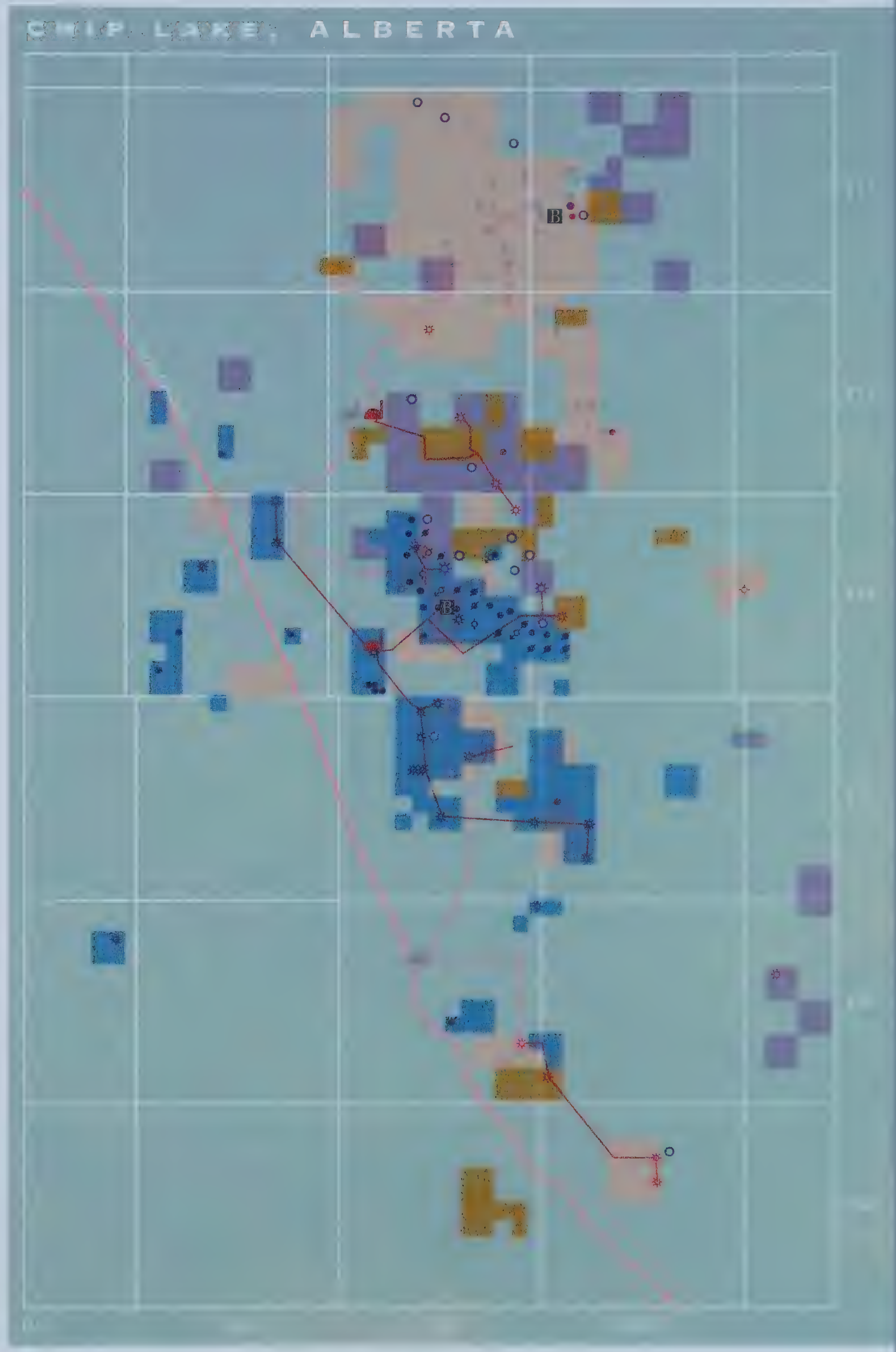
1998 Capital Expenditure Budget:		$23.5 Million
1997 Capital Expenditure:		$19.2 Million
Producing Formations:		Cardium, Rock Creek, Ostracod, Nisku
Potential Formations:		Belly River, Nordegg, Shunda
Average Working Interest:		90%
1997 Exit Production:		1,700 Boe/d
1997 Average Production:		1,356 Boe/d
Reserves (proven plus 50% probable):	Natural Gas	70.5 Bcf
	NGLs	4,425 Mbbls
	Oil	938 Mbbls
Undeveloped Land:	Gross	49,280 Acres
	Net	45,088 Acres
Property Value @ PVBT 15% (proven plus 50% probable):		$65.9 Million

Minor Properties

As Vermilion pursues an aggressive growth strategy, the Company is constantly monitoring all of its properties to ensure that they continue to meet the corporate objectives.

In 1997, Vermilion identified certain minor properties in the Sibbald and Enchant Areas that no longer fit the Company's growth profile. Consequently, Vermilion exchanged these assets in the second quarter of 1997 for common shares of the purchaser. During the first quarter of 1998, Vermilion sold the shares, making a net profit before taxes of $1.0 million.

In the Willmar area of Saskatchewan and the Bottrel area of Alberta, production levels remained relatively consistent with the previous year at an average rate of 341 Boe/d. Both of these areas will be reviewed in 1998 to ensure that they continue to add value.



Vermilion Lands
Lands Purchased in 1997
Farmin Lands
1998 Acquisition Lands
Natural Gas Pipeline

Vermilion Wells
Vermilion Wells Drilled in 1997
1998 1st Quarter Activity
1998 Locations
Vermilion Operated Gas Plant
Vermilion Operated Oil Battery

In addition to its two oil batteries, Vermilion will now control and operate two major gas processing facilities with a combined ... excess of 60 Mmcf/d ...

In the first quarter of 1998, Vermil... assets with approximately 900 Boe/d of ... on 45 gross sections of land. Furthermore ... interest and operatorship of the 31 Mmcf/d ... interest in a 2,500 Bbls/d oil battery.

Overall, Vermilion's focused approach to th... the Company. In addition to its two oil b... operate two major gas processing facilities wit... of 60 Mmcf/d and a gathering system that ca... townships. The Company will continue to enha...

... expenditure		$19.2 Million
		Cardium
		Belly River
		90%
		1,700 Boe/d
		1,356 Boe/d
... (probable):	Natural Gas	70.5 Bcf
	NGLs	4,425 Mbbls
	Oil	938 Mbbls
... Land:	Gross	49,280 Acres
	Net	45,088 Acres
... (probable):		$65.9 Million

... an aggressive growth strategy, the ... properties to ensure that they continue ...

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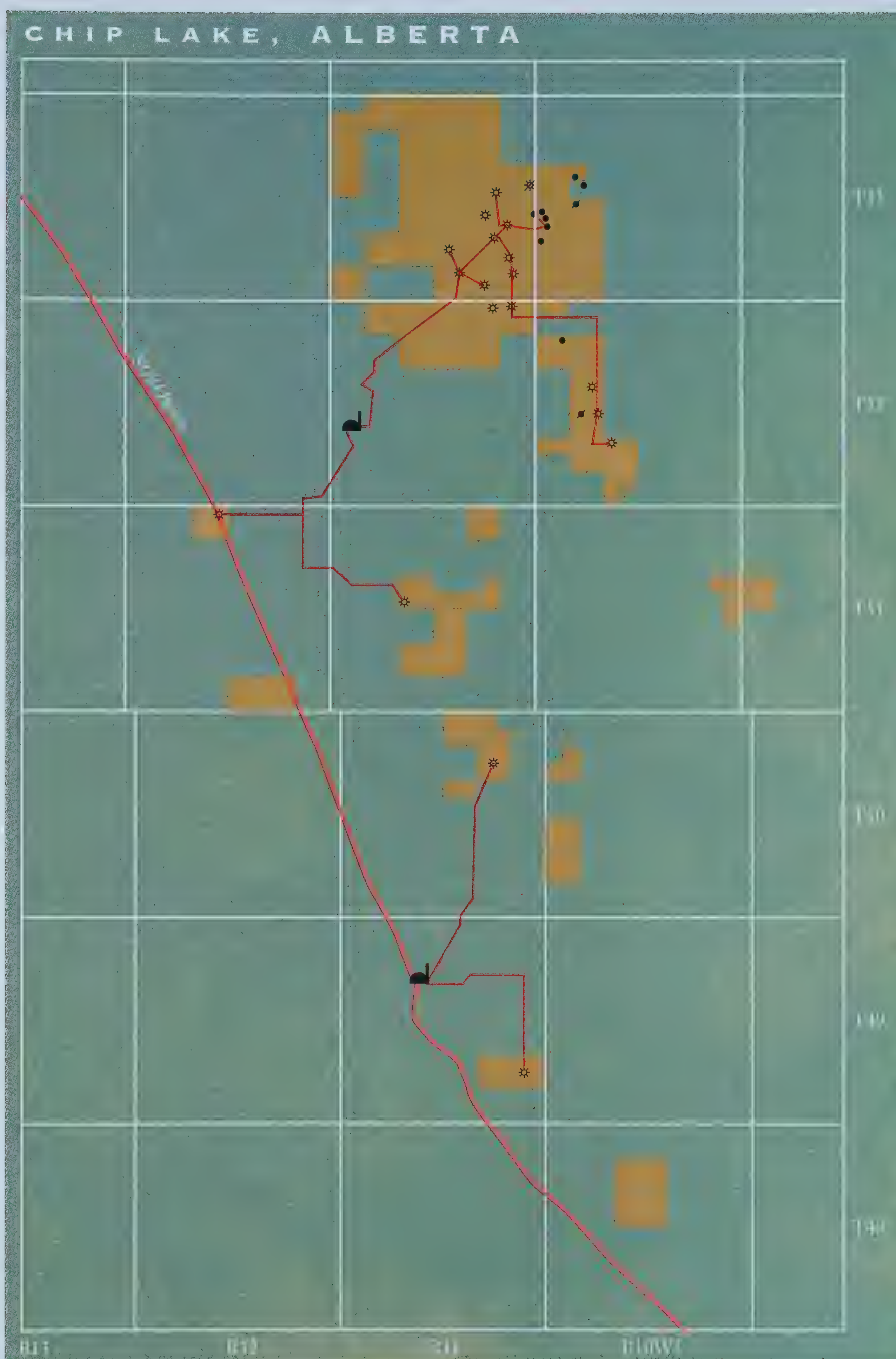


Vermilion Lands

• Vermilion Wells

MARKETING

As of November 1, 1997, Vermilion's natural gas marketing subsidiary became inactive and all third party marketing activity ceased. Vermilion's gas marketing arrangements are now limited to the Company's own production. The Company has developed and maintains a diversified portfolio of gas contracts in order to manage its exposure to gas pricing risk.

In France, the Company's production is sold directly to the refineries. The country's status as a net importer of crude, guarantees Vermilion a ready market for its products in France.

France

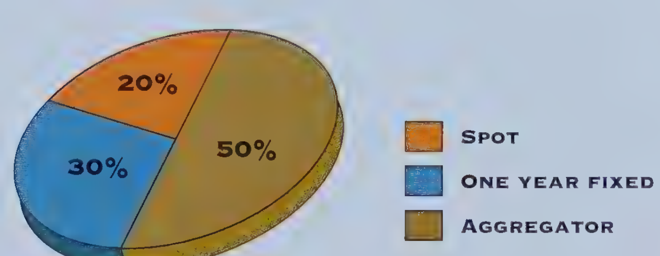
Vermilion's crude is sweet and has an average API gravity of 32.4°. In the Paris Basin, crude is trucked daily to the Elf Grandpuits refinery where the Company receives an average daily price based on Brent crude less a marketing adjustment. Once the necessary permits and approvals are in place, which is anticipated in the second quarter of 1998, this production will be pipelined to the refinery. In the Aquitaine Basin, production is pipelined to a storage facility at Ambès and is then shipped every four to six weeks by tanker to an Elf refinery at Donges .

For Vermilion's non-operated properties at Vic-Bilh and Ucha, the Company has negotiated long term contracts and sells its crude oil and natural gas directly to the operators.

Canada

A balanced portfolio approach is taken on the sale of Vermilion's natural gas production in Canada. The Company has contracted approximately 50% of its gas to a long term reserves dedicated contract with a major systems aggregator. An additional 30% of the Company's gas production is sold on a one year fixed price arrangement and the remaining 20% is sold on the spot market. The Company has used fixed price and long-term contract arrangements to stabilize its cash flow which has resulted in an average price of $ 2.00 per Mcf in Canada. Vermilion foresees a very strong gas market in 1998.

Natural Gas Sales in Canada



MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion should be read in conjunction with the Consolidated Financial Statements.

OVERVIEW

On February 28, 1997, Vermilion signed a Purchase and Sale Agreement for the acquisition of producing properties in France. This acquisition enabled the Company to triple its production base and net asset value prior to any drilling activities on the properties. The Company continues to maintain its presence in Canada, with extensive plans for growth in both Canada and France. All amounts included in the financial statements and this discussion are consolidated and are in Canadian dollars, unless otherwise stated, with the French subsidiary's currency translated as per Note 1 of the financial statements.

CASH FLOW AND NET EARNINGS

	1997	1996	1995
Net Earnings ($ 000)	**11,358**	1,866	243
per Share	**$ 0.30**	$ 0.09	$ 0.02
Cash Flow ($ 000)	**26,407**	5,169	1,085
per Share	**$ 0.70**	$ 0.24	$ 0.08
Earnings to Cash Flow Ratio	**43.0%**	36.1%	22.4%

Cash flow from operations increased 411% to $26.4 million in 1997 from $5.2 million in 1996. Net earnings increased 509% to $11.4 million in 1997 from $1.9 million in the prior year. The high earnings to cash flow ratio in 1997 of 43% reflects the Company's commitment to the bottom line. Entering 1998, Vermilion remains focused on the enhancement of shareholder value in conjunction with continued growth.

CASH FLOW REINVESTMENT

	1997	1996	1995
Finding Costs (per proven Boe)	**$ 2.34**	$ 3.16	$ 3.64
Cash Flow Netback (per Boe)	**$ 11.00**	$ 10.78	$ 8.28
Recycle Ratio	**4.7**	3.4	2.3

Among the most critical factors in Vermilion's successful growth have been the identification of strategic single-sourced acquisitions and the subsequent application of an exploitation strategy intended to double the asset value within 12 to 18 months. The Company's approach of blending development and exploration activities into an acquisition based strategy has been cost effective and successful in developing long life reserves in both Canada and France. The success of this strategy is reflected in the Company's 14 year reserve life and 1997 finding and acquisition costs of $2.34 per proven Boe. The recycle ratio demonstrates Vermilion's ability to provide immediate return on investment to its shareholders while maintaining long-term growth and profitability. Vermilion's operating strategy is further demonstrated by the $46.0 million French acquisition that generated $19.4 million of cash flow in the first year of operations, suggesting a 2.4 year project payout.

"Vermilion refrained from using its under-leveraged financial position to enter the overheated acquisitions market in Canada."

Vermilion bases its evaluations of acquisition prospects on a set of parameters that reflect the level of competition in the given marketplace and the Company recognizes that it will be difficult to generate a recycle ratio of 4.7 each year. In 1997, Vermilion refrained from using its under-leveraged financial position to enter the overheated acquisitions market in Canada. Instead, management made a conscious decision to continue its drilling program, while maintaining moderate debt levels and awaiting changes in the marketplace. The resulting strong financial position has allowed the Company to continue searching for new opportunities in 1998 while maintaining its development and exploration capital program.

CAPITAL EXPENDITURES

Vermilion's 1997 capital program increased by 187% to $78.6 million. The French acquisition accounted for $46.0 million of the total 1997 expenditures, including $8.2 million of pre-acquisition costs paid in 1996.

CAPITAL EXPENDITURES

($ 000)

	1997	1996	1995
Land & Seismic	**$ 5,612**	$ 1,126	$ 52
Drilling & Completion	**18,211**	4,860	1,313
Production Equipment & Facilities	**5,980**	853	1,110
Workovers	**10,097**	–	–
Capitalized G&A	**555**	52	153
Drilling & Development Expenditures	**40,455**	6,891	2,628
Acquisition Costs - France	**46,097**	–	–
Vista Nuova Acquisition	**–**	–	4,796
Property Acquisitions	**1,027**	12,194	1,552
Property Dispositions	**(1,085)**	–	(46)
Preacquisition Costs - France	**(8,158)**	8,158	–
Other	**298**	185	92
	$ 78,634	$ 27,428	$ 9,022

The Company completed the acquisition of the French assets in February 1997, and French government acceptance was received in May. The first stage of the exploitation program, the reactivation/recompletion of 42 wells, was substantially completed at year-end for a total cost of $10.1 million. In the fourth quarter of 1997, Vermilion completed an extensive 3-D seismic program in the Aquitaine Basin. This $3.0 million study has identified a number of drilling locations, including several horizontal well locations. The Company also drilled two vertical oil wells at Champotran and initiated the drilling of one horizontal oil well at Vulaines during the quarter. All three wells were completed and put on production in the first quarter of 1998. The workover and drilling program to date has provided positive results and information which will lead to a substantial increase in drilling activity for 1998. The Company has planned a total of 17 wells in France in 1998, with a development capital budget of $48.1 million.

In Canada, Vermilion drilled a total of 15 wells over the year, achieving a success ratio of 93%. The Chip Lake area will remain the focus of the Company's 1998 drilling activities in Canada, with an estimated domestic capital program of $23.5 million. Vermilion will continue to concentrate its development and exploration efforts in Canada on liquids-rich natural gas opportunities in the W5 corridor surrounding Chip Lake.

In mid-1997, Vermilion entered into a farmin agreement that enabled it to drill and earn in up to 40 sections of land in the Chip Lake area. By year-end, the Company had drilled a total of five wells on these lands. Building on its significant land holdings in the area, the Company completed a $19.0 million acquisition at Chip Lake early in 1998. Under the terms of the agreement, Vermilion acquired 41 sections of land, 900 Boe/d of natural gas and liquids production, a 57% interest in an operated 31 Mmcf/d gas processing facility, and an extensive pipeline infrastructure. The Company further enhanced its position in the area by assuming operatorship of the Granada Gas Processing Plant at Chip Lake, and by increasing its working interest in the plant from 25% to 65%.

CAPITAL RESOURCES

A critical factor in Vermilion's dramatic growth over the past three years has been the Company's use of the optimum mix of debt and equity to finance its capital expenditures. The Company's strong financial position is reflected at December 31, 1997 by moderate long-term debt of $17.5 million, resulting in a debt to cash flow ratio that is well under the 1.5 to 1 corporate target. Maintaining low debt levels through 1997 and into 1998 has allowed Vermilion to aggressively target strategic acquisition opportunities during periods of weak commodity prices and bearish equity markets. At the same time, the Company has maintained its drilling program as originally planned for 1998.

Vermilion's financing strategy can be described as selective and balanced. During the acquisition phase of its capital program, the Company makes use of bank facilities while it accesses equity markets during the development and exploration phase. Using this approach, the Company maintains control over its debt when higher risk capital is employed, or when commodity prices have weakened. At the same time, Vermilion is able to maintain its high growth profile.

During the year ended December 31, 1997, Vermilion funded its capital expenditure program of $78.6 million through the issuance of $44.4 million of equity, $26.4 million of cash flow and $7.8 million of combined debt and working capital. The equity financing was completed in May, 1997 through the issuance of 10 million common shares at $4.50 per share, which was applied to the France acquisition.

SOURCES OF FUNDING

($ 000)

	1997	1996	1995
Cash Flow	**$ 26,407**	$ 5,169	$ 1,085
Cash, end of period	**(2,874)**	–	–
Working Capital and other	**5,834**	(683)	412
Bank Facility	**4,145**	10,255	2,549
Debentures (repayment)	**–**	(1,120)	1,400
Equity	**44,392**	13,807	3,576
Increase in Pension Liability	**730**	–	–
	$ 78,634	$ 27,428	$ 9,022

On March 18, 1998, Vermilion acquired a new $60.0 million loan facility through a banking syndicate comprised of two international banks. The facility bears interest at the bank's annual prime rate for borrowings of less than 75 percent of the borrowing base and at prime plus 0.25% thereafter. At the Company's option, LIBOR and U.S. base rates with applicable margins may be used, with the added flexibility of denominating in Canadian dollars, U.S. dollars, pounds sterling or French francs. The loan is secured by a $120 million first priority demand debenture over all the assets of the Company and an undertaking to provide additional security upon request. In addition, the Company's French subsidiary has provided guarantees with respect to the security of assets in France.

In the first quarter of 1998, Vermilion continued to expand its production facilities and land holdings at Chip Lake through two acquisitions totaling $21.0 million. The Company subsequently concluded a $40.0 million bought deal financing through the issuance of 5,063,291 common shares at $7.90 per share. Upon completion of the financing, Vermilion was virtually debt free. With the $60.0 million loan facility in place, the Company is now well positioned to pursue new acquisitions and to support its projected 1998 acquisition, development and exploration budget of $140.6 million. The Company anticipates a significant increase to this loan facility in 1998 as the most recent acquisition and the 1997 development activities were not considered in the evaluation that established the $60.0 million facility. Vermilion will prudently manage higher debt levels than in prior years to avoid dilution to its existing shareholders.

PRODUCTION AND REVENUE

Vermilion's production averaged 6,573 Boe/d in 1997, reflecting a 403% increase over the 1,307 Boe/d produced in 1996. This average was comprised of 4,825 Bbls/d of crude oil, 651 Bbls/d of natural gas liquids and 10.97 Mmcf/d of natural gas. The dramatic increase in production is primarily attributable to the French assets that were included in Vermilion's consolidated operations effective January 1, 1997.

The impact of the French assets on the Company's oil and gas revenues was equally dramatic. Total oil and gas revenues increased to $53.7 million in 1997 from $9.3

million a year earlier. Production in France generated $41.0 million in revenues, representing 76% of the Company's total production revenues. Vermilion's average crude oil price of $22.33 per barrel closely correlates with the average price received in France of $22.18 per barrel, reflecting the Brent based pricing arrangements. The average price in France includes a $2.79 per barrel transportation charge that is comprised of boat and pipeline transportation costs for moving crude directly to the refinery.

In 1997, the Company's average gas price rose to $2.41 per Mcf, a significant improvement over the $1.63 per Mcf received in 1996. As a result, natural gas revenues more than doubled, reaching $9.6 million in 1997. In Canada, stronger natural gas markets combined with Vermilion's gas marketing initiatives to produce an average price of $2.00 per Mcf. Although natural gas production in France represented only 18% of the Company's total 1997 gas volumes, the substantially higher price of $4.24 per Mcf had a very significant impact on the Company's average price.

PROPERTY PRODUCTION SUMMARY

(Average daily volumes)

	1997			1996		
	Oil & NGLs *Bbls/d*	**Gas** *Mmcf/d*	**Total** *Boe/d*	Oil & NGLs *Bbls/d*	Gas *Mmcf/d*	Total *Boe/d*
Canada						
Chip Lake	**654**	**7.02**	**1,356**	332	4.62	794
Other	**149**	**1.92**	**341**	215	2.98	513
Total Canada	**803**	**8.94**	**1,697**	547	7.60	1,307
France						
Aquitaine Basin:						
Parentis	**2,733**	–	**2,733**	–	–	–
Lugos	**260**	–	**260**	–	–	–
Mothes	**68**	–	**68**	–	–	–
Lucats/Cabeil	**59**	–	**59**	–	–	–
	3,120	–	**3,120**	–	–	–
Paris Basin:						
Champotran	**457**	–	**457**	–	–	–
Vulaines	**145**	–	**145**	–	–	–
Malnoue	**283**	–	**283**	–	–	–
Other	**103**	–	**103**	–	–	–
	988	–	**988**	–	–	–
South Aquitaine Basin						
Non-Operated:	**565**	**2.03**	**768**	–	–	–
Total France	**4,673**	**2.03**	**4,876**	–	–	–
Combined Total	**5,476**	**10.97**	**6,573**	547	7.60	1,307

DRILLING ACTIVITY

(Number of wells)

	1997		1996		1995	
	Gross	**Net**	Gross	Net	Gross	Net
Canada						
Oil	**3**	**2.7**	6	5.7	2	0.1
Gas	**11**	**10.5**	3	1.4	5	0.8
Dry	**1**	**0.4**	1	0.7	0	0
Total	**15**	**13.6**	10	7.8	7	0.9
France						
Oil	**2**	**2.0**	0	0	0	0
Gas	**0**	**0**	0	0	0	0
Dry	**0**	**0**	0	0	0	0
Total	**2**	**2.0**	0	0	0	0
Total						
Oil	**5**	**4.7**	6	5.7	2	0.1
Gas	**11**	**10.5**	3	1.4	5	0.8
Dry	**1**	**0.4**	1	0.7	0	0
Total	**17**	**15.6**	10	7.8	7	0.9

ROYALTIES

Total royalties (net of ARTC) increased to $8.6 million in 1997 from $1.4 million in the prior year. Average crude oil and liquids royalties were 16% of revenues or $3.60 per barrel in 1997 compared to 15% or $3.61 per barrel in the prior year. Royalties paid to various government bodies in France were $6.2 million or 15% of revenues in that country for 1997.

There are two types of production royalties in France and these are applied on a field by field basis:

Federal Royalty:	Aquitaine Basin	8%
	Paris Basin	0%
Departmental/State Production Tax:	$2.40 per barrel for all production in 1997.	

The following royalty and production tax incentives are in place to increase drilling activity levels in France:

Federal Royalty:	New royalty status is applied to new production based on a sliding scale starting at 0% for production under 1,000 Bbls/d and reaching a maximum of 12% for production over 6,000 Bbls/d.
Departmental/State Production Tax:	Post-1992 production permits and new pool discoveries on pre-1992 production permits, are taxed at new rates of approximately $1.20 per barrel.

The Company is currently reviewing strategies to reduce future production royalties in France. These include development activity driven incentives where benefits are received for identification of new pools.

Natural gas royalties were $1.36 million for 1997, representing 14% of revenues or $0.34 per Mcf . This compares to 15% of revenues or $0.25 per Mcf in 1996. Total natural gas royalties (net of ARTC) paid in Canada in 1997 were $1.18 million, up from the $0.7 million paid in 1996. The Canadian royalty rate increased from 15 percent in 1996 to 18 percent as a result of lower gas cost allowance in 1997.

LIFTING COSTS

Crude oil and NGL lifting costs for 1997 were $11.5 million or $5.73 per barrel compared to $0.56 million or $2.82 per barrel in the prior year. On a volumetric basis, lifting costs for oil and liquids were higher in 1997 than in the prior year reflecting the higher cost of energy, materials and contract services in France. The 1997 crude oil and NGL lifting costs in France of $6.01 per barrel reflect certain operational start-up costs

that are non-recurring in nature. Vermilion has targeted 1998 operating costs in France at less than \$5.00 per barrel. This appears reasonable, given the Company's plans for streamlining operations and enhancing productivity.

Natural gas lifting costs for 1997 were \$2.6 million or \$0.66 per Mcf compared to \$0.95 million or \$0.34 per Mcf in the prior year. As with crude oil, natural gas lifting costs were negatively affected by high lifting costs in France of \$1.59 per Mcf. These lifting costs reflect higher processing and operating costs from non-operated properties in France. In Canada, natural gas lifting costs were \$0.44 per Mcf in 1997 versus \$0.34 per Mcf in 1996. This increase is attributable to new production that was processed at non-operated facilities. In efforts to reduce processing costs, Vermilion increased its working interest in the Granada Gas Plant at Chip Lake, and assumed operatorship of the plant. The Company also acquired a second gas plant in the region during the first quarter of 1998.

OPERATING STATISTICS

(\$ 000)

	1997			1996			1995
	Oil & NGLs	**Gas**	**Total**	Oil & NGLs	Gas	Total	Total
Canada							
Revenues	**\$ 6,210**	**\$ 6,499**	**\$ 12,709**	\$ 4,759	\$ 4,564	\$ 9,323	\$ 2,077
Royalties	**(1,195)**	**(1,176)**	**(2,371)**	(723)	(690)	(1,413)	(197)
Lifting Costs	**(1,207)**	**(1,450)**	**(2,657)**	(564)	(952)	(1,516)	(533)
Operating Income	**3,808**	**3,873**	**7,681**	3,472	2,922	6,394	\$ 1,347
France							
Revenues	**37,844**	**3,140**	**40,984**	–	–	–	–
Royalties	**(6,005)**	**(181)**	**(6,186)**	–	–	–	–
Lifting Costs	**(10,253)**	**(1,178)**	**(11,431)**	–	–	–	–
Operating Income	**21,586**	**1,781**	**23,367**	–	–	–	–
Combined							
Revenues	**44,054**	**9,639**	**53,693**	4,759	4,564	9,323	2,077
Royalties	**(7,200)**	**(1,357)**	**(8,557)**	(723)	(690)	(1,413)	(197)
Lifting Costs	**(11,460)**	**(2,628)**	**(14,088)**	(564)	(952)	(1,516)	(533)
Operating Income	**\$ 25,394**	**\$ 5,654**	**\$ 31,048**	\$ 3,472	\$ 2,922	\$ 6,394	\$ 1,347

OPERATING STATISTICS (CONT'D)

NETBACKS

	1997			1996			1995
	Oil & NGLs *per Bbl*	**Gas** *per Mcf*	**Total** *per Boe*	Oil & NGLs *per Bbl*	Gas *per Mcf*	Total *per Boe*	Total *per Boe*
Canada							
Prices	**$ 21.20**	**$ 1.99**	**$ 20.52**	$ 23.77	$ 1.63	$ 19.43	$ 15.86
Royalties (net of ARTC)	**(4.08)**	**(0.36)**	**(3.83)**	(3.61)	(0.25)	(2.94)	(1.50)
Lifting Costs	**(4.12)**	**(0.44)**	**(4.29)**	(2.82)	(0.34)	(3.16)	(4.07)
Operating netback	**$ 13.00**	**$ 1.19**	**$ 12.40**	$ 17.34	$ 1.04	$ 13.33	$ 10.29
France							
Prices	**$ 22.19**	**$ 4.24**	**$ 23.03**	$ –	$ –	$ –	$ –
Royalties	**(3.52)**	**(0.24)**	**(3.48)**	–	–	–	–
Lifting Costs	**(6.01)**	**(1.59)**	**(6.42)**	–	–	–	–
Operating netback	**$ 12.66**	**$ 2.41**	**$ 13.13**	$ –	$ –	$ –	$ –
Combined							
Prices	**$ 22.04**	**$ 2.41**	**$ 22.38**	$ 23.77	$ 1.63	$ 19.43	$ 15.86
Royalties (net of ARTC)	**(3.60)**	**(0.34)**	**(3.57)**	(3.61)	(0.25)	(2.94)	(1.50)
Lifting Costs	**(5.73)**	**(0.66)**	**(5.87)**	(2.82)	(0.34)	(3.16)	(4.07)
Operating netback	**$ 12.71**	**$ 1.41**	**$ 12.94**	$ 17.34	$ 1.04	$ 13.33	$ 10.29

GENERAL AND ADMINISTRATIVE

Gross general and administrative ("G & A") expenses for 1997 increased 356% over the prior year, as expected, given the 403% increase in average production. During the transition period for the French operations, Vermilion increased staff levels through the addition of two senior officers, strong technical personnel and administrative support staff. The majority of the personnel added were dedicated to facilitation of the 1997 capital program, start up of operations in France, and development of the 1998 capital program. This additional staffing resulted in higher capitalized G & A in 1997.

GENERAL & ADMINISTRATIVE EXPENSES

($ 000)

	1997	1996	1995
Gross G&A	**$ 4,063**	$ 898	$ 510
Recoveries	**(257)**	(101)	(40)
	3,806	797	470
Capitalized G&A	**(555)**	(52)	(153)
Net G&A	**$ 3,251**	$ 745	$ 317
Net G&A per Boe	**$ 1.36**	$ 1.55	$ 2.42

INTEREST

Interest expense for 1997 increased over the prior year as a result of the higher average debt levels associated with the Company's growth. On a volumetric basis, interest costs were significantly reduced to $0.26 per Boe in 1997 from $0.96 per Boe in the prior year. In light of the $78.6 million capital program, Vermilion's debt levels throughout 1997 were moderate. The Company was able to maintain lower debt by funding the France acquisition with a $45.0 million common share issue. The Company has maintained an average cost of debt of 5.6% in 1997 versus 6.6% in 1996 as a result of lower interest rates.

DEBT & INTEREST EXPENSE

($ 000)

	1997	1996	1995
Bank Loan Facility	**$ 17,549**	$ 5,574	$ 3,149
Pre-acquisition Financing	**–**	7,830	–
Debentures (including current portion)	**–**	280	1,400
Total Debt at Year End	**$ 17,549**	$ 13,684	$ 4,549
Total Credit Facility	**$ 60,000**	$ 30,000	$ 4,500
Interest Expense	**$ 615**	$ 463	$ 401
Debt to Cash Flow Ratio	**0.6**	0.8	2.0

CASH FLOW PER BARREL

For the fourth consecutive year, Vermilion's cash flow and operations netbacks have improved. The Company continues to achieve a strong cash flow netback by ensuring that it remains well financed and by maintaining strict control over its administrative costs. Vermilion has demonstrated its ability to find strategic acquisitions, to add production through the drill bit and to reduce operating costs. The Company is poised for continued strong performance in 1998.

CASH FLOW PER BARREL

	1997	1996	1995
Oil and Gas Revenues	**$ 22.38**	$ 19.43	$ 15.86
Royalties (net of ARTC)	**(3.57)**	(2.94)	(1.50)
Production Expenses	**(5.87)**	(3.16)	(4.07)
Operations Netback	**$ 12.94**	$ 13.33	$ 10.29
General and Administrative	**(1.36)**	(1.55)	(2.42)
Interest	**(0.26)**	(0.96)	(3.06)
Capital Taxes	**(0.10)**	(0.12)	(0.05)
Marketing	**(0.22)**	0.08	3.52
Cash Flow per Boe	**$ 11.00**	$ 10.78	$ 8.28

DEPLETION AND DEPRECIATION

Vermilion continues to be a low cost finder of oil and gas reserves as reflected in its 1997 average depletion rate of $3.06 per Boe, down from $3.81 per Boe in 1996 (gas calculated on a 10:1 ratio). The French assets have a depletion rate of $2.79 per Boe, significantly reducing the overall average depletion rate.

The Company provides for expected future costs associated with site restoration and abandonment of facilities and wells. This is included in the depletion and depreciation provision. At year-end 1997, the provision for future site restoration costs was increased to $19.2 million from $0.3 million in 1996, upon evaluation of the facilities and wells in France. The significant increase in the provision was anticipated given the size and complexity of the facilities at Parentis and the number of producing well platforms that reside on the Parentis Lake.

DEPLETION AND DEPRECIATION EXPENSE

($ 000)

	1997			1996		
	Canada	**France**	**Total**	Canada	France	Total
Depletion and depreciation expense	**$2,394**	**$ 4,956**	**$ 7,350**	$ 1,826	$ –	$ 1,826
Depletion and depreciation expense, per Boe	**$ 3.87**	**$ 2.78**	**$ 3.06**	$ 3.81	$ –	$ 3.81

INCOME TAXES

Vermilion paid cash taxes in 1997 of $77,034 from its subsidiary operations and incurred a further $165,609 of large corporation taxes during the year. The Company's tax horizon in Canada for paying current taxes is 1999 while the tax horizon in France is less than one year. Notwithstanding further decreases in oil prices, Vermilion anticipates that its French subsidiary will be cash taxable in 1998.

As a result of a substantial increase in net earnings, the Company's deferred tax provision increased to $7.7 million in 1997 from $1.5 million in 1996. The consolidated corporate tax rate for 1997 is 39.4% including the corporate tax rate in France of

41.7%. In addition to the corporate tax, the petroleum industry in France is subject to a large corporation levy of 12%, applied to the net taxable income of corporations with revenues exceeding $25.0 million. This tax is payable two years after the year in which it is incurred and is not applicable to incremental production from drilling activity after 1994. The Company does not anticipate having to pay this levy until the year 2000.

The oil and gas industry in France has a tax pool structure similar to Canada's for development capital. However, in order to enhance development activity in the country, the Ministry has provided tax incentives to the producers. Certain incentives are as follows:

- Crown payments are deductible in the calculation of taxable income
- There is a depletion Allowance provision allowing for a double write-off of exploration and development expenditures

As of year-end 1997, Vermilion's subsidiary in France reported total pool balances of $49.7 million, available to reduce current taxes in future years. In 1998, the Company's capital expenditure program in France will reduce the effective tax rate for current taxes to below 10% of cash flow.

CANADIAN TAX POOLS

($ 000)

	December 31, 1997
Canadian Exploration Expense	$ 2,000
Canadian Development Expense	10,500
Canadian Oil and Gas Property Expense	11,400
Undepreciated Capital Cost	8,700
Share Issue Costs	2,700
Total	$ 35,300

FUTURE ORIENTED FORECAST INFORMATION

In conjunction with the $45 million Special Warrants financing that closed in May of 1997, the Company prepared a financial forecast of the revenue and operating expenses of the French assets for the year ending December 31, 1997. The forecast information was prepared based on the January 1, 1997 Chapman Report covering the original 11 producing fields. Following the completion of this evaluation, a field with crude production of 200 Bbls/d was withdrawn upon the exercise of third party first right of refusal. This loss of production was more than offset by the acquisition of additional non-operated production at Vic-Bilh. In 1997, this property produced an average of 666 Boe/d of crude oil, NGLs and natural gas.

FRENCH ASSETS – FINANCIAL FORECAST VS ACTUALS

($ 000)

	Actual 1997	Forecast 1997
Oil & Natural Gas Sales	$ 40,984	$ 37,991
Royalties	(6,186)	(6,613)
	34,798	31,378
Operating Expenses	11,431	12,410
Operating Income	$ 23,367	$ 18,968

Crude oil and NGLs production for 1997 was 4,673 Bbls/d, 10% higher than the production forecast of 4,260 Bbls/d. This is attributable to the workover and reactivation program as well as the acquisition of an additional non-operated property. As a result of this increased production, oil and natural gas revenues were 8% higher than forecasted. This was partially offset by marginally lower oil prices, net of transportation, as initially forecasted.

Royalties and production taxes were 6% lower than forecasted as a result of production enhancements to new royalty status wells that have lower royalty burdens attached. Average operating expenses for 1997 were $6.42 per Boe versus the $7.87 per Boe forecasted. The reduction of costs was attributable to savings incurred as Vermilion commenced operatorship of the facilities and began streamlining the cost structure of the operations.

In summary, increased production levels and a higher netback in France resulted in a 23% increase in 1997 operating income over the financial forecast.

BUSINESS RISKS

Crude oil and natural gas exploration, production, acquisition and marketing operations involve a number of business risks. Such risks include commodity prices, exploration risk, product demand, transportation restrictions, exchange rate fluctuation, interest rates and governmental regulatory changes.

Vermilion will mitigate such risks by maintaining a strong financial position and a stable cash flow stream through the development of long life reserves. The Company's corporate strategy is focused on maximization of reserve value through a balanced exploitation and exploration program. Vermilion has defined risk management strategies to manage currency and commodity price exposure and has incorporated these strategies into its corporate planning and budgeting.

RISK MANAGEMENT

Currency Risk

Vermilion's operations are affected by the exchange rate between the Canadian dollar, the U.S. dollar and the French franc. The Company paid for the French assets in French francs and all ongoing costs of operations in France will be denominated in

francs. Revenues on all crude oil operations will be U.S. dollar denominated (Canada – West Texas Intermediate; France – Brent). The Company plans to reinvest the cash flow in France into development capital and other acquisition opportunities, thereby creating a natural hedge and partially reducing the exposure to the French franc. Vermilion's capital program has a 25-30% component of U.S. dollar denominated expenditures. Vermilion uses U.S. dollar denominated debt for U.S. dollar expenditures, resulting in a partial offset of the cost of the debt servicing obligation against the sales impact of currency fluctuation. Further, the Company is currently evaluating forward sale contracts for U.S. dollars or French francs and has incorporated a foreign exchange strategy into its corporate planning and budgeting.

Commodity Price Risk

Vermilion's oil and gas revenues are subject to fluctuations in world oil prices and Canadian gas prices. Fundamental changes to natural gas markets are anticipated with increased pipeline access to U.S. markets increasing the natural gas price exposure to North American markets. The Company has used oil price hedging strategies in the past to assist in reducing the exposure to both price and currency fluctuations. Vermilion uses a balanced portfolio approach to managing natural gas price risks. The Company's price exposure is affected by the timing of boat transportation in the Aquitaine Basin in France. The transportation delays have been minimized to four to five weeks as a result of production growth in 1998 thereby increasing the frequency of delivery.

The Company will continue to review its natural gas pricing arrangements throughout 1998 as production volumes increase and markets remain somewhat volatile. The Company's crude oil hedging strategies involve the assessment of threshold pricing limits, based on historical prices, combined with the financial parameters essential to maintaining its capital budget. A key aspect to managing risk has been for the Company to maintain a strong balance sheet during periods of weak commodity prices and soft equity markets. This allows Vermilion to protect its capital program while demonstrating continued growth during downward cycles. The Company will not enter speculative financial arrangements in attempts to outguess the markets with respect to future world oil prices. Vermilion's objective is simply to ensure against downside risk.

Year 2000 Concerns

The millennium is quickly approaching and with it, the need to address global concerns over computerized processes. Vermilion is continuing a review of its operations with the assistance of external technical advisors to assess all areas of exposure. Plans are to complete the study and make any necessary enhancements by the fall of 1998. The Company's computer software in both Canada and France has been recently upgraded with the assurance of year 2000 compatibility. Vermilion will complete the review with an examination of operations facilities, the primary focus being the Parentis treatment facility and tank farm. Preliminary assessments indicate that any enhancements will not be significant in cost.

Corporate Reserves

On a consolidated basis, Vermilion's reserve base increased fivefold in 1997 to 50.8 Mmboe of proven plus 50% probable from 10.1 Mmboe in the prior year. The France acquisition accounted for approximately 22.2 Mmboe of the total additions of 36.9 Mmboe for proven plus 50% probable reserves. The remaining reserve additions were added through successful drilling at Chip Lake, in Canada, and positive results from the workover and well reactivation program in France.

Vermilion's reserve life index on a barrel of oil equivalent basis is 14 years for proven reserves based on first quarter production levels. The Company is confident of its ability to continue to increase its reserves substantially beyond replacing production with low risk development drilling. Early drilling results in 1998 have already identified two new pool discoveries at Chip Lake which, in conjunction with drilling activity in France, will lead to conversion of probable reserves to proven and will result in extensions of existing pools.

SUMMARY OF RESERVES

January 1, 1998

Canadian Assets

	Oil	Gas	NGL		Net Present Value Before Taxes Discounted at:		
	Mbbls	*Mmcf*	*Mbbls*	*Mboe*	10%	15%	20%
Proven Producing	732	59,110	3,835	10,478	$ 73,736	$ 54,783	$ 43,717
Proven Non-Producing	194	11,288	727	2,049	18,096	13,638	10,865
Total Proven	926	70,398	4,562	12,527	91,832	68,421	54,582
Probable	281	36,248	1,778	5,684	34,692	22,292	15,563
Total Proven Plus 50% Probable	**1,066**	**88,522**	**5,451**	**15,369**	**$ 109,388**	**$ 79,697**	**$ 62,448**

French Assets

	Oil	Gas	NGL		10%	15%	20%
Proven Producing	23,918	12,890	–	25,207	$ 222,337	$ 168,583	$ 135,592
Proven Non-Producing	5,140	–	–	5,140	48,240	34,518	26,235
Total Proven	29,058	12,890	–	30,347	270,577	203,101	161,826
Probable	9,502	6,147	–	10,117	71,733	44,821	29,150
Total Proven Plus 50% Probable	**33,809**	**15,964**	**–**	**35,406**	**$ 306,443**	**$ 225,512**	**$ 176,401**

Combined Assets

	Oil	Gas	NGL		10%	15%	20%
Proven Producing	24,650	72,001	3,835	35,685	$ 296,073	$ 223,366	$ 179,309
Proven Non-Producing	5,334	11,288	727	7,189	66,335	48,156	37,099
Total Proven	29,984	83,289	4,562	42,874	362,409	271,522	216,408
Probable	9,783	42,395	1,778	15,801	106,424	67,113	44,713
Total Proven Plus 50% Probable	**34,875**	**104,486**	**5,451**	**50,775**	**$ 415,831**	**$ 305,209**	**$ 238,849**

"The low finding costs in 1997 are a result of the determination and effort by the Company to identify underdeveloped international assets in a country with low political and business risk and limited competition."

RESERVE RECONCILIATION (PROVEN)

	Crude oil	NGLs	Natural Gas	Total
Canada	*Mbbls*	*Mbbls*	*Mmcf*	*Mboe*
December 31, 1996	1,229	2,229	48,766	8,334
Production	(91)	(202)	(3,265)	(620)
Additions	224	2,577	27,305	5,532
Acquisitions	–	–	–	–
Dispositions	(122)	(6)	(833)	(211)
Revisions	(314)	(36)	(1,574)	(508)
December 31, 1997	926	4,562	70,399	12,527
France				
December 31, 1996	–	–	–	–
Production	(1,670)	(36)	(740)	(1,780)
Additions	1,716	–	–	1,716
Acquisitions	20,026	132	12,892	21,447
Dispositions	–	–	–	–
Revisions	8,986	(96)	738	8,964
December 31, 1997	29,058	–	12,890	30,347
Combined				
December 31, 1996	1,229	2,229	48,766	8,334
Production	(1,761)	(238)	(4,005)	(2,400)
Additions	1,940	2,577	27,305	7,248
Acquisitions	20,026	132	12,892	21,447
Dispositions	(122)	(6)	(833)	(211)
Revisions	8,672	(132)	(836)	8,456
December 31, 1997	29,984	4,562	83,289	42,874

Note: Canadian dispositions consisted of properties in the Bittern Lake, Enchant and Sibbald areas.

ACQUISITION AND FINDING COSTS

The acquisition of petroleum and natural gas assets in France was the key transaction for Vermilion in 1997. The low finding costs in 1997 are a result of the determination and effort by the Company to identify underdeveloped international assets in a country with low political and business risk and limited competition. Vermilion's infill and horizontal drilling plans for 1998 are intended to prove up the potential of low risk reserves and improve the deliverability of the properties.

Upon completion of the first five wells drilled in France, the Company has attained increased control over drilling costs and improved the rig efficiency. International activities are characteristically more expensive but lead to more prolific results. Vermilion's experience to date has shown promising results that have reinforced the Company's commitment to its corporate strategy.

ACQUISITION AND FINDING COSTS

	1997	1996	1995
Expenditures ($000)			
Drilling and Development	**$ 40,455**	$ 6,890	$ 2,628
Property Acquisitions*	**46,039**	12,194	6,302
	$ 86,494	$ 19,084	$ 8,930
Reserve Additions			
Proven Reserves (Mboe)	**36,940**	6,034	2,452
Finding and Acquisition Costs per Boe	**$ 2.34**	$ 3.16	$ 3.64

** Pre-acquisition costs of $8,157,959 paid in 1996 are included in 1997 Property Acquisitions.*

NET ASSET VALUE

The net present value of the Company's total reserves before taxes, discounted at 15%, increased to $305.2 million in 1997 from $65.6 million at December 31, 1996. This lead to an increase in the net asset value to $6.67 per share as at December 31, 1997 which is triple that of December 31, 1996. With the completion of its $40.0 million equity financing, Vermilion has positioned itself in early 1998 for significant growth through high impact acquisitions.

NET ASSET VALUE

($ 000)

	1997	1996	1995
Proven plus 50% Probable	**$305,209**	$ 65,598	$ 15,942
Undeveloped Land (Canada)	**6,631**	3,447	1,028
Marketing	**–**	–	3,000
Total Debt and Working Capital	**(20,426)**	(5,717)	(4,785)
Exercise of Warrants and Stock Options	**12,697**	2,742	1,772
Total Assets	**$304,111**	$ 66,070	$ 16,957
Fully Diluted Common Shares	**45,580**	32,983	19,116
Net Asset Value – Fully Diluted	**$ 6.67**	$ 2.00	$ 0.89

LAND

UNDEVELOPED LAND HOLDINGS

Year ended December 31, 1997

	Gross Acres	Net Acres
Canada		
Alberta	87,098	54,650
Saskatchewan	6,507	4,816
	93,605	59,466
France		
Aquitaine Basin	18,157	18,157
Paris Basin	34,615	34,615
Aquitaine Maritime	543,630	54,363
Farmin Rights (Exploration Concessions):		
Vexin	129,730	64,865
Chevreuse	49,174	24,587
	775,306	196,587
Total	868,911	256,053

ABBREVATIONS

Bbls	barrels
Bbls/d	barrels per day
Mbbls	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mmcf	million cubic feet
Mmcf/d	million cubic feet per day
Boe	barrel of oil equivalent
Boe/d	barrel of oil equivalent per day
Mboe	thousand barrels of oil equivalent
Mmboe	million barrels of oil equivalent
ARTC	Alberta Royalty Tax Credit
conversion	10 Mcf: 1 Boe

CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1997 and 1996

MANAGEMENT'S REPORT TO SHAREHOLDERS

The accompanying consolidated financial statements of Vermilion Resources Ltd. are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in accordance with accounting principles generally accepted in Canada. Where necessary, management has made informed judgements and estimates of transactions which were not complete at the balance sheet date. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining high quality systems of internal control. Procedures and policies are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded, and that the financial records are reliable for preparation of the financial statements.

KPMG, the Company's external auditors, have conducted an examination of the consolidated financial statements in accordance with generally accepted auditing standards in Canada and have provided an independent opinion.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility principally through the Audit Committee which is appointed by the Board and is comprised of a majority of Directors who are not employees of the Company. The Committee meets periodically with management and the external auditors to satisfy itself that each party is properly discharging its responsibilities and to review the financial statements, the Management's Discussion and Analysis and the external Auditors' Report before they are presented to the Board of Directors.

Jeff S. Boyce
President & C.E.O.

Stephen F. Bjornson
Vice President Finance & Corporate Secretary

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Vermilion Resources Ltd. as at December 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants
Calgary, Canada
March 19, 1998

LAND

[illegible]

	Gross Acres	Net Acres
Canada		
Alberta	87,098	54,650
[illegible]	6,507	4,816
	93,605	59,466
Foreign		
[illegible]	18,157	18,157
[illegible]	34,615	34,615
[illegible]	543,630	54,363
[illegible]		
[illegible]	129,730	64,865
[illegible]	49,174	24,587
	775,306	196,587
[illegible]	868,911	256,053

[illegible]

[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible] cubic feet per day
[illegible]	[illegible]
[illegible]	[illegible] per day
Boe	barrels of oil equivalent
[illegible]	barrels of oil equivalent per day
[illegible]	thousand barrels of oil equivalent
[illegible]	million barrels of oil equivalent
ARTC	Alberta Royalty Tax Credit
conversion	10 Mcf: 1 Boe

CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1997 and 1996

MANAGEMENT'S REPORT TO SHAREHOLDERS

The accompanying consolidated financial statements of Vermilion Resources Ltd. are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in accordance with accounting principles generally accepted in Canada. Where necessary, management has made informed judgements and estimates of transactions which were not complete at the balance sheet date. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining high quality systems of internal control. Procedures and policies are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded, and that the financial records are reliable for preparation of the financial statements.

KPMG, the Company's external auditors, have conducted an examination of the consolidated financial statements in accordance with generally accepted auditing standards in Canada and have provided an independent opinion.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility principally through the Audit Committee which is appointed by the Board and is comprised of a majority of Directors who are not employees of the Company. The Committee meets periodically with management and the external auditors to satisfy itself that each party is properly discharging its responsibilities and to review the financial statements, the Management's Discussion and Analysis and the external Auditors' Report before they are presented to the Board of Directors.

Jeff S. Boyce
President & C.E.O.

Stephen E. Bjornson
Vice President Finance & Corporate Secretary

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Vermilion Resources Ltd. as at December 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants
Calgary, Canada
March 19, 1998

CONSOLIDATED BALANCE SHEETS

December 31, 1997 and 1996 *(thousands of dollars)*	1997	1996
Assets		
Current assets:		
Cash	$ 2,874	$ –
Accounts receivable:		
Petroleum and natural gas	14,225	1,653
Gas marketing	–	6,359
Crude oil inventory	3,168	–
Short-term investments	1,108	23
Prepaid expenses and other	517	23
	21,892	8,058
Notes receivable (note 8)	85	310
Pre-acquisition costs	–	8,158
Capital assets (note 2)	108,254	27,720
	$ 130,231	$ 44,246
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable:		
Petroleum and natural gas	$ 24,769	$ 1,811
Gas marketing	–	6,110
Current portion of debenture	–	280
	24,769	8,201
Pre-acquisition financing	–	7,830
Long-term debt (notes 3 and 12(a))	17,549	5,574
Pension liability (note 10)	730	–
Provision for future site restoration	1,580	48
Deferred income taxes (note 7)	7,881	1,337
	52,509	22,990
Shareholders' equity:		
Share capital (note 5)	64,590	19,482
Retained earnings	13,132	1,774
	77,722	21,256
Commitments and contingencies (note 9)		
Subsequent events (note 12)		
	$ 130,231	$ 44,246

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Jeff S. Boyce
Director

J. Gordon Ironside
Director

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31, 1997 and 1996
(thousands of dollars, except per share amounts)

	1997	1996
Revenue:		
Petroleum and natural gas revenue	$ 53,693	$ 9,323
Royalties (net)	8,557	1,413
	45,136	7,910
Gas marketing income (loss) (note 6)	(532)	41
	44,604	7,951
Expenses:		
Production	14,088	1,516
Interest	615	463
General and administration	3,251	745
Depletion and depreciation	7,350	1,826
	25,304	4,550
Earnings before income taxes	19,300	3,401
Income taxes:		
Deferred (note 7)	7,699	1,477
Current	77	–
Capital	166	58
	7,942	1,535
Net earnings	11,358	1,866
Retained earnings (deficit), beginning of year	1,774	(92)
Retained earnings, end of year	$ 13,132	$ 1,774
Net earnings per Common Share:		
Basic	$ 0.30	$ 0.09
Fully diluted	$ 0.29	$ 0.08

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1997 and 1996
(thousands of dollars, except for per share amounts)

	1997	1996
Cash provided by (used in):		
Operations:		
Net earnings	$ **11,358**	$ 1,866
Items not affecting cash:		
Depletion and depreciation	**7,350**	1,826
Deferred income taxes	**7,699**	1,477
Funds generated from operations	**26,407**	5,169
Changes in non-cash working capital	**5,609**	(543)
	32,016	4,626
Investments:		
Acquisition of capital assets, net	**(46,039)**	(12,194)
Drilling and development of petroleum and natural gas properties	**(40,455)**	(7,076)
Pre-acquisition costs	**8,158**	(8,158)
Other asset purchases, net	**(298)**	–
	(78,634)	(27,428)
Financing:		
Increase (decrease) in pre-acquisition financing	**(7,830)**	7,830
Increase in long-term debt	**11,975**	2,425
Increase in other liabilities	**730**	–
Issue of Common Shares for cash, net of share issue costs	**44,392**	13,807
Issue (repayment) of debenture (note 4)	**–**	(1,120)
Decrease (increase) in notes receivable	**225**	(140)
	49,492	22,802
Net change in cash	**2,874**	–
Cash, beginning of year	**–**	–
Cash, end of year	$ **2,874**	$ –
Funds from operations per share:		
Basic	$ **0.70**	$ 0.24
Fully diluted	$ **0.67**	$ 0.22

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1997 and 1996
(Tabular amounts in thousands of dollars except for per share amounts)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

(b) Capital assets:

The Company uses the full-cost method of accounting for petroleum and natural gas operations and, accordingly, capitalizes all exploration and development costs. These costs include land acquisition, geological and geophysical costs, drilling (including related overhead) on producing and non-producing properties and other carrying charges on unproven properties. Proceeds of disposition are applied against the cost pools with no gain or loss recognized except where the disposition results in a significant change in the rate of depletion and depreciation.

The cost of significant unevaluated properties are excluded from the depletion and depreciation base. The carrying value is limited to the recoverable amount as determined by estimating the present value of future net revenues from proven properties based on current prices and costs and the value of unproven properties at the lower of cost and net realizable value less estimated future site restoration costs, general and administrative expenses, financing costs and income taxes. Amortization of these costs is calculated on the unit-of-production method based on estimated proven reserves, before royalties, as determined by independent engineers. For purposes of depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

(c) Furniture and equipment:

Furniture and equipment are recorded at cost and are being amortized on a declining balance basis at rates of 20% to 50% per year.

(d) Joint ventures:

Substantially all of the exploration, development and production activities of the company are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(e) Provision for future site restoration:

The Company estimates its future site restoration and abandonment costs for its oil and gas properties. The costs represent management's best estimate of the future restoration and abandonment costs based upon current legislation and industry practices. Total estimated costs are being provided for on a unit-of-production basis. The annual provision included in amortization expense and actual site restoration costs are charged to the account as incurred.

(f) Financial instruments:

The Company uses financial instruments from time to time to hedge its exposure to fluctuations in oil and natural gas prices, foreign exchange rates and interest rates. Gains or losses from these activities are reported as adjustments to the related revenue or expense accounts when the gain or loss is realized.

(g) Measurement uncertainty:

The amounts recorded for depletion and depreciation of property, plant and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements from changes in such estimates in future periods could be significant.

(h) Earnings per share:

Earnings per share and funds from operations per share are calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings per share, where applicable, reflect the exercise of options and issuance of Common Shares for warrants as if issued at the later of the date of grant or the beginning of the year.

(i) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Capital assets and share capital are reduced by the estimated cost of the renounced tax deduction when the expenditures are incurred.

(j) Foreign currency translation:

Foreign currency balances of foreign subsidiaries, which are considered to be integrated, are translated on the following basis:

- Monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates.
- Non-monetary assets, liabilities and related depreciation and depletion expense are translated at historical rates.
- Sales, other revenues, royalties and all other expenses are translated at the average rate of exchange during the month in which they are recognized.

Any resulting foreign exchange gains and losses are included in earnings.

CAPITAL ASSETS

1997	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties and equipment	$ 115,959	$ 8,123	$ 107,836
Furniture and equipment	577	159	418
	$ 116,536	$ 8,282	$ 108,254

1996	Cost	Accumulated depletion and depreciation	Net book value
Petroleum and natural gas properties and equipment	$ 29,905	$ 2,411	$ 27,494
Furniture and equipment	279	53	226
	$ 30,184	$ 2,464	$ 27,720

As at December 31, 1997, costs of $15,000,000 (December 31, 1996 - $3,000,000) for unproved properties have been excluded from the depletion calculation. During the year, the Company capitalized $555,360 (December 31, 1996 - $52,250) of overhead costs related to exploration and development activities.

Included in capital assets are $3,384,000 (December 31, 1996 - $4,214,000) of petroleum and natural gas properties with no income tax basis.

The provision for future site restoration costs is recorded in the statement of earnings as a component of depletion and depreciation and on the balance sheet as a long-term liability. At December 31, 1997, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves are $19,172,200 (December 31, 1996 - $340,000).

LONG-TERM DEBT

At December 31, 1997, the Company had a $27,000,000 revolving production loan facility with an additional $3,000,000 letter of credit facility. This facility was payable on demand and bore interest at 0.5% over the bank's prime rate per annum.

The Company had pledged as collateral for the $27,000,000 revolving demand loan, a $60,000,000 demand debenture conveying a first floating charge over all assets of the Company and a negative pledge and undertaking to provide additional security upon request (see note 12(a)).

DEBENTURE

The Company had a debenture payable at December 31, 1996, with interest at the bank's prime rate, secured by a floating charge against all assets and subordinated to the revolving line of credit. The final principal repayment of $280,000 was paid on February 6, 1997.

SHARE CAPITAL

(a) Authorized:

Unlimited number of Common Shares

Unlimited number of Preferred Shares

(b) Issued:

	Number of Shares	Amount
Balance, December 31, 1995	16,367,071	$ 5,458
Issued through private placements for cash	288,250	577
Issued for cash through Special Warrants	12,714,300	13,700
Warrants exercised for cash	690,243	690
Stock options exercised for cash	50,000	23
Cancelled during the year	(200,000)	(120)
Share issue costs, net of deferred tax of $474,374	–	(589)
Tax effect on flow-through shares issued	–	(257)
Balance, December 31, 1996	29,909,864	19,482
Issued for cash through Special Warrants	10,000,000	45,000
Warrants exercised for cash	656,570	675
Stock options exercised for cash	1,503,250	751
Flow through share offering	84,654	555
Share issue costs, net of deferred tax of $1,155,179	–	(1,434)
Tax effect on flow-through shares issued	–	(439)
Balance, December 31, 1997	42,154,338	$ 64,590

(c) Flow-through shares:

Pursuant to flow-through share agreements dated December 23, 1997, the Company is committed to renounce resource expenditures of $554,480 prior to March 31, 1998.

(d) Stock options:

The Company has a stock option plan under which the Board of Directors may grant stock options to directors, officers and employees for the purchase of Common Shares. At December 31, 1997, the Company has outstanding a total of 3,425,893 (December 31, 1996 - 2,457,000) options under the Stock Option Plan. The options are exercisable at prices from $0.30 to $7.00 and expire at various dates between 1999 and 2001.

(e) Escrowed shares:

Pursuant to escrow agreements dated January 21, 1994 and February 6, 1995 between the Company, certain shareholders of the Company and a trust company, 1,095,320 Common Shares were held in escrow as of December 31, 1997. The shares were automatically released from escrow on February 6, 1998.

6. GAS MARKETING

	1997	1996
Gas marketing sales	**$ 33,821**	$ 139,949
Gas marketing purchases	**(34,275)**	(139,612)
Net marketing margin	**(454)**	337
Direct costs	**(78)**	(296)
Gas marketing	**$ (532)**	$ 41

On November 1, 1997, the Company ceased its third party natural gas marketing activities.

7. DEFERRED INCOME TAXES

The provision for income taxes differs from the result which would be obtained had the combined statutory income tax rates for the respective Canadian and foreign jurisdictions been applied to net income. The corporate tax rate in 1997 is lower than the 44.6% combined Canadian federal and provincial statutory income tax due to lower tax rates applied in foreign jurisdictions.

	1997	1996
Earnings before income taxes	**$ 19,300**	$ 3,401
Corporate tax rate	**39.4%**	44.6%
Expected tax expense	**7,604**	1,517
Increase (decrease) in taxes resulting from:		
Non-deductible crown payments	**892**	568
Resource allowance	**(776)**	(682)
Alberta Royalty Tax Credit	**(282)**	(50)
Non-deductible depletion	**92**	117
Other	**45**	7
Foreign exchange	**201**	–
Provision for income taxes	**$ 7,776**	$ 1,477

At December 31, 1997, the Company has approximately $35,300,000 (December 31, 1996 - $19,700,000) of tax pools for Canadian income tax purposes.

8. RELATED PARTY TRANSACTIONS

As at December 31, 1997 the Company has $85,000 (December 31, 1996 - $310,000) of notes receivable reflecting non-interest bearing loans due from certain officers and management of the Company for the purchase of Common Shares. The Common Shares are held as collateral for the respective loans and are to be repaid on or before December 31, 1998.

9. COMMITMENTS AND CONTINGENCIES

At December 31, 1997, the Company had issued a letter of credit for 50,000,000 French francs (approximately $12,000,000 Cdn.) in favour of the vendor of the properties acquired in France,

which secures certain indemnities given to the vendor. The letter of credit will be reduced to 30,000,000 French francs (approximately $7,200,000 Cdn.) upon the formal transfer of titles of the French assets which is anticipated to occur in 1998. The letter of credit expires July 1998 and has a 10 percent drawdown upon annual renewal.

10. PENSION LIABILITY

The pension plan, which covers certain employees in France, is a defined benefit plan and is Company funded. The cost of the defined benefit plan reflects management's best estimates of the pension plan's expected investment yields, salary escalation, mortality of members, terminations and the ages at which members will retire. Defined benefit pension plan assets are reported at market values. The actuarial present value of accrued pension benefits is $730,540 at December 31, 1997 and the value of pension fund assets at December 31, 1997 is $239,600.

11. SEGMENTED INFORMATION

The Company has operations in Canada and France. The Company's entire operating activities are related to exploration, development and production of petroleum and natural gas.

	1997	1996
Petroleum and natural gas revenues:		
Canada	**$ 12,709**	$ 9,323
France	**40,984**	–
	$ 53,693	$ 9,323
Net earnings:		
Canada	**$ 3,157**	$ 1,866
France	**8,201**	–
	$ 11,358	$ 1,866
Funds generated from operations:		
Canada	**$ 7,021**	$ 5,169
France	**19,386**	–
	$ 26,407	$ 5,169
Capital expenditures:		
Canada	**$ 11,051**	$ 27,428
France	**67,583**	–
	$ 78,634	$ 27,428
Identifiable assets:		
Canada	**$ 48,147**	$ 44,246
France	**82,084**	–
	$ 130,231	$ 44,246

12. SUBSEQUENT EVENTS

(a) Long-term debt:

On March 18, 1998, the Company entered into a financing arrangement for a new loan facility for $60,000,000 with a banking syndicate. The facility has a four year term attached to a one year extendible revolving period. The Company has pledged as collateral a $120,000,000 first priority floating demand debenture over all the assets of the Company and an undertaking to provide additional security upon request. Interest is payable at the bank's prime rate per annum when outstanding borrowings are less than 75% of the borrowing base and, thereafter, at prime rate plus 0.25% per annum.

(b) Equity financing:

Pursuant to an underwriting agreement dated March 6, 1998, the Company has committed to file a prospectus issuing 5,063,291 common shares at $7.90 per common share for gross proceeds of $40,000,000. The proceeds of the financing will be used to facilitate the expansion of the Company's ongoing exploration, development, and acquisition plans. Share capital will be increased by the net proceeds of approximately $38,602,450 after deducting $2,100,000 of estimated issue fees and expenses (net of the associated tax benefit of $702,450).

FOUR YEAR SUMMARY

	1997	1996	1995	1994
FINANCIAL *($000 except per share amounts)*				
Petroleum and Natural Gas Revenues	**$ 53,693**	$ 9,323	$ 2,077	$ 385
Cash Flow from Operations	**26,407**	5,169	1,085	145
Per Share	**0.70**	0.24	0.08	0.02
Net Earnings	**11,358**	1,866	243	27
Per Share	**0.30**	0.09	0.02	–
Capital Expenditures	**78,634**	27,428	9,022	2,237
Total Assets	**130,231**	44,246	19,609	2,265
Long-Term Debt	**17,549**	13,404	4,269	600
Shareholders' Equity	**$ 77,722**	$ 21,256	$ 5,366	1,517
Common Shares Outstanding				
End of Period	**42,154,338**	29,909,864	16,367,071	9,350,000
Weighted Average	**37,773,872**	21,403,004	14,473,854	6,303,563
Fully Diluted, End of Period	**45,580,231**	32,982,935	19,116,482	11,000,000
Share Trading				
High	**$ 9.75**	$ 4.50	$ 0.85	$ 0.85
Low	**3.85**	0.70	0.45	0.19
Close	**$ 8.25**	$ 4.50	$ 0.75	$ 0.51
OPERATIONS				
Production				
Crude Oil (Bbls/d)	**4,825**	229	77	33
NGLs (Bbls/d)	**651**	318	98	2
Natural Gas (Mcf/d)	**10,973**	7,600	1,835	170
Total Production (Boe/d)	**6,573**	1,307	359	52
Average Selling Price				
Crude Oil (per Bbl)	**$ 22.33**	$ 26.93	$ 19.49	$ 20.18
NGLs (per Bbl)	**19.93**	21.50	15.78	15.06
Natural Gas (per Mcf)	**2.41**	1.63	1.43	2.11
Operations Netback (per Boe)	**12.94**	13.33	10.29	13.13
Cash Flow Netback (per Boe)	**$ 11.00**	$ 10.78	$ 8.28	$ 7.66
Reserves (Proven Plus 50% Probable)				
Crude Oil (Mbbls)	**34,876**	1,330	673	295
NGLs (Mbbls)	**5,451**	2,758	1,376	10
Natural Gas (Mmcf)	**104,486**	60,004	15,053	1,682
Undeveloped Land Holdings (net acres)	**256,053**	45,450	18,881	1,312
Net Asset Value per Share	**$ 6.67**	$ 2.00	$ 0.89	$ 0.24
Finding Costs (per proven Boe)	**$ 2.34**	$ 3.16	$ 3.64	$ 3.95
Recycle Ratio	**4.7**	3.4	2.3	1.9

Vermilion Resources Ltd.

Vermilion REP S.A.

Jean-Philippe Azpiazu *Yves Casier* *Christophe Jourde* *Anne-Marie Priegnitz*
Sandy Abdallah *Nicole Donais* *Darren Kisser* *Kevin Radomske*

Béatrice Bach *Patrick Catala* *Bernard Krakowiak* *Michel Rembert*
Ron Banks *Vince Farkas* *Adele Langer* *John Ramescu*

Brigitte Barland *Hervé Degoul* *Patrick Kwasniewski* *Martin Robert*
Steve Bjornson *Mickel Foster* *Janice Larson* *Tom Robertson*

Jean-Louis Bernede *Thierry Doumic* *Donald Lajoie* *André Sanchez*
Colleen Boos *Claudio Ghersinich* *Rob Macaulay* *Nathalie Ruault*

Noêlle Beylac *André Enenkel* *Josette Larroze* *Didier Sentucq*
Jeff Boyce *Debbie Hardtman* *Debbie Mah* *Rob Sadownyk*

Alexandre Bichot *Claude Engard* *Didier Lechartier* *Michel Skoberne*
Laurie Bradford *Gordon Harris* *Paula Massitti* *Judith Sloane*

Michel Braga *Jacques François* *Christian Lopez* *Thomas Valero*
Steve Charbonneau *Bob Hehn* *Wendy Matchett* *Jack Smith*

Patrick Caillot *Gérard Herran* *Dominique Marin* *Jean-Pierre Verdier*
Maria Comrie *Jesse Jabs* *Susan McNutt* *Steve Stretch*

David Cannon *Bernard Jourde* *Claude Poujardieu* *Ghislaine Vollaud*
Lorenzo Donadeo *Brady Jensen* *Fadi Nammour* *Lloyd Waters*

Corporate Information

Directors

Jeff S. Boyce (1)(2)
Calgary, Alberta

Charles W. Berard (1)(2)
Partner
MacLeod Dixon
Calgary, Alberta

Lorenzo Donadeo
Calgary, Alberta

Claudio Ghersinich
Calgary, Alberta

J. Gordon Ironside (1)(2)
President & C.E.O.
Blue Range Resource
Corporation
Calgary, Alberta

(1) Audit Committee
(2) Compensation Committee

Officers and Key Personnel

Canada

Jeff S. Boyce
President & C.E.O.

Lorenzo Donadeo, *P. Eng.*
Executive Vice President

Claudio Ghersinich, *P. Eng.*
Executive Vice President

Gordon Harris, *P. Eng., MBA*
Vice President Production
& Engineering

Stephen E. Bjornson, *C.A.*
Vice President Finance &
Corporate Secretary

Fadi Nammour, *P. Eng.*
Vice President
International

John Ramescu, *B. Comm.*
Vice President,
Land & Exploration

France

David Cannon, *P. Eng.*
Directeur Général,
Vermilion REP S.A.

Auditors

KPMG
Calgary, Alberta

Bankers

Chase Manhattan Bank
of Canada
Toronto, Ontario

Crédit Lyonnais
Calgary, Alberta

The National Bank
of Canada
Calgary, Alberta

Evaluation Engineers

Chapman Petroleum
Engineering Ltd.
Calgary, Alberta

Legal Counsel

Howard Mackie
Calgary, Alberta

MacLeod Dixon
Calgary, Alberta

Transfer Agent

Montreal Trust

Stock Exchange Listing

The Toronto Stock
Exchange
Symbol: "VRM"

Produced by Canada Corporate Communications Inc.

FOUR YEAR SUMMARY

	1997	1996	1995	1994
FINANCIAL *($000 except per share amounts)*				
Petroleum and Natural Gas Revenues	$ 53,693	$ 9,321	$ [illegible]	$ 185
Cash Flow from Operations	26,407	5,169	1,085	145
Per Share	[illegible]	0.24	[illegible]	[illegible]
Net Earnings	11,358	1,806	243	27
Per Share	[illegible]	[illegible]	[illegible]	-
Capital Expenditures	78,634	57,428	9,022	2,237
Total Assets	130,[illegible]	[illegible]	[illegible]	[illegible]
Long-Term Debt	17,549	13,404	4,269	600
Shareholders' Equity	$ 77,732	$ 23,550	$ 3,366	1,517
Common Shares Outstanding				
End of Period	42,154,318	29,589,864	16,367,071	9,350,000
Weighted Average	37,779,872	21,461,004	14,473,854	6,301,563
Fully Diluted, End of Period	45,980,231	32,982,915	19,116,482	11,000,000
Share Trading				
High	$ 9.75	$ 4.50	$ 0.85	$ 0.85
Low	3.85	0.70	0.45	0.19
Close	$ 8.25	$ 4.80	$ 0.75	$ 0.51
OPERATIONS				
Production				
Crude Oil (Bbls/d)	4,825	329	77	33
NGLs (Bbls/d)	651	318	98	2
Natural Gas (Mcf/d)	10,973	7,000	1,835	170
Total Production (Boe/d)	6,573	1,307	359	52
Average Selling Price				
Crude Oil (per Bbl)	$ 22.33	$ 26.93	$ 19.49	$ 20.18
NGLs (per Bbl)	19.93	21.50	15.78	15.06
Natural Gas (per Mcf)	2.41	1.63	1.43	2.11
Operations Netback (per Boe)	12.94	13.33	10.29	13.13
Cash Flow Netback (per Boe)	$ 11.00	$ 10.78	$ 8.28	$ 7.66
Reserves (Proven Plus 50% Probable)				
Crude Oil (Mbbls)	34,876	1,330	673	295
NGLs (Mbbls)	5,451	2,758	1,376	10
Natural Gas (Mmcf)	104,486	60,004	15,883	1,682
Undeveloped Land Holdings (net acres)	256,053	45,430	18,881	1,312
Net Asset Value per Share	$ 6.67	$ 2.00	$ 0.80	$ 0.24
Finding Costs (per proven Boe)	$ 2.34	$ 3.16	$ 3.64	$ 3.94
Recycle Ratio	4.7	3.4	2.3	1.9

Vermilion Resources Ltd.

Sandy Abdallah	*Nicole Donais*	*Darren Kisser*	*Kevin Radomske*
Tom Banks	*Vince Farkas*	*Adele Langer*	*John Ramescu*
Steve Bjornson	*Mickel Foster*	*Janice Larson*	*Tom Robertson*
Colleen Boos	*Claudio Ghersinich*	*Rob Macaulay*	*Nathalie Ruault*
Jeff Boyce	*Debbie Hardtman*	*Debbie Mah*	*Rob Sadownyk*
Laurie Bradford	*Gordon Harris*	*Paula Massitti*	*Judith Sloane*
Steve Charbonneau	*Bob Hehn*	*Wendy Matchett*	*Jack Smith*
Maria Comrie	*Jesse Jabs*	*Susan McNutt*	*Steve Stretch*
Lorenzo Donadeo	*Brady Jensen*	*Fadi Nammour*	*Lloyd Waters*

Corporate Information

Directors

Jeff S. Boyce [(1)(2)]
Calgary, Alberta

Charles W. Berard [(1)(2)]
Partner
MacLeod Dixon
Calgary, Alberta

Lorenzo Donadeo
Calgary, Alberta

Claudio Ghersinich
Calgary, Alberta

J. Gordon Ironside [(1)(2)]
President & C.E.O.
Blue Range Resource Corporation
Calgary, Alberta

(1) Audit Committee
(2) Compensation Committee

Officers and Key Personnel

Canada

Jeff S. Boyce
President & C.E.O.

Lorenzo Donadeo, *P. Eng.*
Executive Vice President

Claudio Ghersinich, *P. Eng.*
Executive Vice President

Gordon Harris, *P. Eng., MBA*
Vice President Production & Engineering

Stephen E. Bjornson, *C.A.*
Vice President Finance & Corporate Secretary

Fadi Nammour, *P. Eng.*
Vice President International

John Ramescu, *B. Comm.*
Vice President, Land & Exploration

France

David Cannon, *P. Eng.*
Directeur Général,
Vermilion REP S.A.

Auditors

KPMG
Calgary, Alberta

Bankers

Chase Manhattan Bank of Canada
Toronto, Ontario

Crédit Lyonnais
Calgary, Alberta

The National Bank of Canada
Calgary, Alberta

Evaluation Engineers

Chapman Petroleum Engineering Ltd.
Calgary, Alberta

Legal Counsel

Howard Mackie
Calgary, Alberta

MacLeod Dixon
Calgary, Alberta

Transfer Agent

Montreal Trust

Stock Exchange Listing

The Toronto Stock Exchange
Symbol: "VRM"

Produced by Canada Corporate Communications Inc.

VERMILION RESOURCES LTD.

HEAD OFFICE

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